

Appendix to your Annuity Policy or Member's Policy Booklet

Special terms for your Income Choice Annuity

About this booklet

This booklet is an Appendix to either your:

- › Annuity Policy, or
- › if you bought your annuity under the Immediate Vesting Personal Transfer Plan, your Member's Policy Booklet.

It describes the operation of our Income Choice Annuity.

It is part of, and needs to be read alongside, your Annuity Policy or Member's Policy Booklet.

If you would like a Braille, large print or audio version of this Appendix, please contact us at:

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Contents

1 Meaning of words	4
1.1 Special words and expressions in the Annuity Policy or Member's Policy Booklet	4
1.2 Additional special words and expressions	4
2 General	5
3 Required Smoothed Return	5
4 Prudential's With-Profits Fund	5
4.1 The Long-Term Fund	5
4.2 Assets owned by Prudential	5
4.3 The Smoothed Return	6
4.4 With-Profits Information	6
5 How we work out the new level of income to be provided by the annuity	6
5.1 General	6
5.2 Calculation	6
5.3 Smoothed Return – Special Provisions	7
6 Date of changes to the annuity	7
7 Secure Level	7
7.1 General	7
7.2 Paying the Secure Level	7
7.3 Clarification of how we work out the new level of income to be provided by the annuity if we pay the Secure Level	8
7.4 Secure Level for any Second Annuity	8
8 Changes to the level of income provided by the annuity	8
8.1 General	8
8.2 Option to change the level of income – important provision	9
9 Annuity switching option	9
9.1 General	9
9.2 Switch of annuity – special provision	9
10 Example of how we work out the new level of income to be provided by the annuity	10

1 Meaning of words

The words and expressions that appear in bold in this Appendix have particular meanings. We define these terms below and in section C of your Annuity Policy or section B of your Member's Policy Booklet.

1.1 Special words and expressions in the Annuity Policy or Member's Policy Booklet

We use special words and expressions in your Annuity Policy or Member's Policy Booklet. These also apply to this Appendix.

We use both "**Member's Policy Booklet**" and "**Policy**" in this Appendix, but only one of these is relevant, depending on how the **annuity** was bought. If the **annuity** was bought under the Immediate Vesting Personal Transfer Plan, "**Member's Policy Booklet**" is relevant. If the **annuity** was bought in another way, "**Policy**" is relevant.

"**Policyholder**" is relevant to all types of annuity other than those bought under the Immediate Vesting Personal Transfer Plan.

1.2 Additional special words and expressions

We use the following additional special words and expressions in this Appendix:

Annuitant

This is either the **first annuitant** or, if there is one, the **second annuitant**.

Annuity

This is either the **first annuity** or, if there is one, the **second annuity**.

For the avoidance of doubt, section 7 of this Appendix sets out the Secure Level provisions separately for the **first annuity** and any **second annuity**.

Effective date

The **effective date** is usually the **annuity start date** or, if we didn't receive everything we needed to set up your annuity until after the **annuity start date**, it may be a different date. The **effective date** is shown in the **Statement of Benefits**.

The **effective date** is one of the things we use to determine the **Smoothed Return**.

Required Smoothed Return

This is the rate of **Smoothed Return** needed to maintain the level of income provided by the **annuity**.

The **policyholder** or **first annuitant** chooses the initial level of income to be provided by the **annuity**. They choose it from within a range set by us. We calculate the **Required Smoothed Return** needed to maintain that initial level of income. This will be anything between 1% per year for the bottom of the income range and 6% per year for the top.

The **policyholder** or **annuitant** may change the level of income provided by the **annuity** at the **annuity change date** as described in section 8 of this Appendix. If this happens, we will re-calculate the **Required Smoothed Return** needed to maintain that new level of income.

Smoothed Return

This is your share of the overall profits from our With-Profits Fund. We announce your share each year.

The **Smoothed Return** assumes you are eligible to receive a full year's share of the profits our With-Profits Fund achieves. See section 4.3 of this Appendix for more detail.

2 General

(a) For an **Income Choice Annuity**, the accepted **Annuity Quotation** will be entitled "Income Choice Annuity Quotation".

(b) An **Income Choice Annuity** pays the **annuitant** a retirement income linked primarily to the performance of our With-Profits Fund. Depending on the size of the **Smoothed Return** and the **Required Smoothed Return**, the level of income provided by the **annuity** could go up or down each year.

(c) Benefits in respect of **guaranteed minimum pension** or benefits payable from a **registered pension scheme** in the form of a **scheme pension** cannot be set up as an **Income Choice Annuity**.

3 Required Smoothed Return

(a) The **Required Smoothed Return** is shown in the **Annuity Quotation**.

The **policyholder** or **annuitant** can change the level of income provided by the **annuity** in accordance with section 8 of this Appendix. If this happens, we will re-calculate the **Required Smoothed Return** needed to maintain that new level of income.

(b) Subject to section 9 of this Appendix, the level of income provided by the **annuity** is determined by a number of factors as described in the **Key Features Document**. One of these factors is the **Required Smoothed Return**. Please see section 4.3 of this Appendix.

4 Prudential's With-Profits Fund

4.1 The Long-Term Fund

The With-Profits Fund is part of Prudential's long-term fund, which is an investment fund holding the assets relating to a number of different types of policy.

4.2 Assets owned by Prudential

All the assets of the With-Profits Fund (and Prudential's long-term fund) are owned by us in our own right and not as a trustee for policyholders. But when we make decisions relating to the investment and valuation of assets, the division of the long-term fund profits or the amount of smoothed returns or bonuses, charges and other deductions referable to With-Profits policyholders, we will at all times bear in mind our obligations to treat our customers fairly in attempting to protect the interests of all affected policyholders and shareholders. We aim to strike a balance between the interests of:

(a) our policyholders and our shareholders;

(b) different classes of policyholder; and

(c) individual policyholders.

4.3 The Smoothed Return

Subject to section 5.3 of this Appendix, the **Smoothed Return** affects the level of income provided by the **annuity**.

The size of the **Smoothed Return** is not guaranteed and will change from year to year based on a number of factors, including the performance of the With-Profits Fund and the **effective date**.

The **Smoothed Return** can be either negative or positive. It can also be proportioned, but only at the first **annuity change date** – see the **Key Features Document**.

The **Smoothed Return** takes into account the past and expected future performance of the With-Profits Fund, the charges we deduct and changes in our views of life expectancy. We balance the level of the **Smoothed Return** each year to help smooth the ups and downs of actual investment returns over the years. As a result, the income will generally be less volatile than through a direct holding in the underlying assets.

Subject to section 7 of this Appendix, if the **Smoothed Return** we announce is:

- › the same as the **Required Smoothed Return**, the level of income to be provided by the **annuity** for the following year stays the same.

- › higher than the **Required Smoothed Return**, the level of income to be provided by the **annuity** for the following year goes up.

- › lower than the **Required Smoothed Return**, the level of income to be provided by the **annuity** for the following year goes down (but the level of income will never fall below the Secure Level, as described in section 7 of this Appendix).

The way we carry out this calculation is set out in section 5.2 of this Appendix.

4.4 With-Profits Information

We currently publish, and make available, a brochure called "Your With-Profits Plan – A Guide To How We Manage The Fund" which describes our **Smoothed Return** policy and how we operate our With-Profits business.

The **policyholder** or **annuitant** can ask us to provide a copy of this guide.

Our "Principles and Practices of Financial Management" document is also available. It describes in greater detail how we manage our With-Profits business. A copy can be obtained from our website at www.pru.co.uk

5 How we work out the new level of income to be provided by the annuity

5.1 General

The level of income provided by the **annuity** can go down or up each year.

The level of income provided by the **annuity** will be reviewed each year and may be changed following the **Smoothed Return** that we announce.

We calculate the new level of the income to be provided by the **annuity** based on the difference between the **Required Smoothed Return** and the **Smoothed Return** that we announce.

We will give the **policyholder** or **annuitant** details of the new level of income to be provided by the **annuity** before we start to pay it.

5.2 Calculation

To work out the new level of income to be provided by the **annuity** we apply the following calculation:

- › Firstly, we reduce the level of income provided by the **annuity** for the last year to allow for the **Required Smoothed Return**. We do this by dividing the level of income by the sum of 1 + the **Required Smoothed Return**.

- Secondly, we allow for the **Smoothed Return**. We do this by multiplying the result of the first step by the sum of 1 + the **Smoothed Return**.

Subject to section 7 of this Appendix, the result is the new level of income to be provided by the **annuity**.

The new level of income to be provided by the **annuity** will take effect as described in section 6 of this Appendix.

For an example of how this calculation works, please see section 10 of this Appendix.

5.3 Smoothed Return – Special Provisions

If investment conditions change significantly after we announce the **Smoothed Return**, we can cancel or change it. If this happens after the **annuity change date** (see also section 6 of this Appendix), the new level of income to be provided by the **annuity** will not be affected and will continue unchanged for the rest of the 12 month period. If, however, we revise the **Smoothed Return** before the **annuity change date** (see also section 6 of this Appendix), the revised **Smoothed Return** will apply and the new level of income to be provided by the **annuity** will be calculated accordingly.

6 Date of changes to the annuity

The date of any change to the income provided by the **annuity** is the **annuity change date** either on or following 6 April each year.

Where the **annuity** has been set up to be paid "in advance", the new amount will be payable with effect from the **annuity change date**. Where the **annuity** has been set up to be paid "in arrears", the new amount will be payable with effect from the next payment due under the **Policy** or **Member's Policy Booklet** following the **annuity change date**.

7 Secure Level

7.1 General

We guarantee we will never pay the **annuitant** less than a certain amount. We call this amount the "Secure Level".

The Secure Level is equal to the bottom of the income range available to the **policyholder** or **annuitant** at the **annuity start date**. For example, if the **policyholder** or **annuitant** has the choice of an income from within a range of £1,000 and £6,000 per annum, the Secure Level is £1,000.

The Secure Level cannot go up or down following the review each year of the level of income to be provided by the **annuity**.

7.2 Paying the Secure Level

If, when we calculate the new level of income to be provided by the **annuity** (see section 5 of this Appendix), the income falls below the Secure Level, we pay the Secure Level. Essentially, we top-up the income to the Secure Level. For example, if the Secure Level is £1,000 and the income falls to £900, we top-up the income by £100.

When we calculate the new level of income to be provided by the **annuity** at the next **annuity change date** (see section 7.3 of this Appendix), if the income goes back up above the Secure Level, we pay the higher amount.

If the income goes up, but not by enough to go back up above the Secure Level, we continue to pay the Secure Level, but the amount we top-up by goes down.

If the income falls further, again we continue to pay the Secure Level, but the amount we top-up by goes up.

If the income stays the same, we continue to pay the Secure Level, and the amount we top-up by stays the same.

7.3 Clarification of how we work out the new level of income to be provided by the annuity if we pay the Secure Level

Before we calculate the new level of income to be provided by the **annuity** (see section 5 of this Appendix) we need to work out the level of income provided by the **annuity** for the last year. We do this by deducting the top-up from the Secure Level.

For example, if the Secure Level is £1,000 and the top-up is £100, the level of income provided by the **annuity** for last year is:

$$£1,000 - £100 = \mathbf{£900}$$

7.4 Secure Level for any Second Annuity

The Secure Level applicable to any **second annuity** is equal to a percentage of the Secure Level applicable to the **first annuity**. For example, if the **second annuity** is equal to 50% of the **first annuity**, the Secure Level applicable to the **second annuity** is equal to 50% of the Secure Level applicable to the **first annuity**.

The percentage is shown in the **Annuity Quotation**. We determine the Secure Level applicable to the **second annuity** at the start date of the **second annuity**.

The provisions of this section 7 (where relevant) apply to the Secure Level applicable to any **second annuity** in exactly the same way they apply to the Secure Level applicable to the **first annuity**.

8 Changes to the level of income provided by the annuity

8.1 General

Subject to section 8.2 of this Appendix, the **policyholder** or **annuitant** to whom the **annuity** is at that time in the course of payment can change the level of income provided by the **annuity** at any **annuity change date**. This option first becomes available at the first **annuity change date** and the following provisions apply:

- (a) The new level of income to be provided by the **annuity** must be within the range set from time to time by us. We can change the **Required Smoothed Return** used to determine the range at any time.
- (b) No further changes to the level of income provided by the **annuity** may be made until the next **annuity change date**.
- (c) The Secure Level will not change as a result of the **policyholder** or **annuitant** changing the level of income provided by the **annuity** (as described in this section 8).
- (d) The level of income provided by the **first annuity** cannot be changed whilst instalments of the **first annuity** are being paid during a **guarantee period** following the death of the **first annuitant**. The level of income provided by any **second annuity** can however be changed in accordance with this section 8, even if the payments of **second annuity** "overlap" with the guarantee payments of the **first annuity**.

(e) We will give the **policyholder** or **annuitant** details of the **Required Smoothed Return** needed to maintain the new level of income to be provided by the **annuity** before they will become committed to the change, but we must retain complete discretion as to how we calculate this. The method we use to calculate this may change from time to time.

(f) Where we think it appropriate, we will ask for medical evidence and we retain the right to require that the **annuitant** undergoes a medical examination. If the medical evidence suggests that the **annuitant's** life expectancy is expected to be significantly longer or shorter than we had originally assumed, we may change our calculations so as to assume a longer or shorter life expectancy. The effect of a longer or shorter life expectancy is taken into account in both valuing the **annuity** and setting the new level of income to be provided by the **annuity**. The cost of obtaining any medical evidence required may also be taken into account when setting the new level of income to be provided by the **annuity**. A longer or shorter life expectancy could, in either case, possibly lead to a higher or lower level of income to be provided by the **annuity**.

8.2 Option to change the level of income – important provision

Although the **policyholder** or **annuitant** will usually be able to change the level of income provided by the **annuity**, there may be circumstances in which we need to remove or defer this option in order to maintain the financial strength of the With-Profits Fund for the benefit of all policyholders. This could occur as a result of adverse market conditions, for example a significant fall in market values (either sudden or over a period of years), when the investment outlook is poor or in periods when market prices fluctuate widely. We will notify the **policyholder** or **annuitant** if this happens.

9 Annuity switching option

9.1 General

Subject to section 9.2 of this Appendix, the **policyholder** or **annuitant** to whom the **annuity** is at that time in the course of payment can elect to switch the **annuity** to one of our Guaranteed Pension Annuities (see below) at any **annuity change date**:

- › a **Level Annuity**, where the income will not decrease or increase;

- › a **Fixed Increase Annuity**, where the income will increase at a fixed rate of anything between 0.01% and 8.5% per year; or
- › an **RPI-Linked Annuity**, where the income will be linked to changes in the Retail Prices Index.

The following provisions apply to this option:

- (a) It will not be possible to switch back to an **Income Choice Annuity** at a later date.
- (b) The **first annuity** cannot be switched to one of our Guaranteed Pension Annuities whilst instalments of the **first annuity** are being paid during a **guarantee period** following the death of the **first annuitant**. Any **second annuity** can however be switched to one of our Guaranteed Pension Annuities in accordance with this section 9, even if the payments of the **second annuity** "overlap" with the guarantee payments of the **first annuity**.
- (c) We will give the **policyholder** or **annuitant** details of the level of income to be provided by the new Guaranteed Pension Annuity before they will become committed to the change, but we must retain complete discretion as to how we calculate this. The method we use to calculate this may change from time to time.

(d) Where we think it appropriate, we will ask for medical evidence and we retain the right to require that the **annuitant** undergoes a medical examination.

If the medical evidence suggests that the **annuitant's** life expectancy is expected to be significantly longer or shorter than we had originally assumed, we may change our calculations so as to assume a longer or shorter life expectancy. The effect of a longer or shorter life expectancy is taken into account in both valuing the **annuity** and setting the level of income to be provided by the new Guaranteed Pension Annuity. The cost of obtaining any medical evidence required may also be taken into account when setting the level of income to be provided by the new Guaranteed Pension Annuity. A longer or shorter life expectancy could, in either case, possibly lead to a higher or lower level of income to be provided by the new Guaranteed Pension Annuity.

(e) The Secure Level that applies to the **Income Choice Annuity** will not apply to the new Guaranteed Pension Annuity.

9.2 Switch of annuity – special provision

The **annuity** may only be switched if the level of income to be provided by the new Guaranteed Pension Annuity is at least equivalent to the Secure Level.

10 Example of how we work out the new level of income to be provided by the annuity

All figures shown are for example purposes only.

First Step

We reduce the level of income provided by the **annuity** for the last year to allow for the **Required Smoothed Return**

Level of income provided by the **annuity** for last year:

£10,000

Required Smoothed Return:

4.0%

We divide the level of income provided by the **annuity** for last year by the sum of 1 + the **Required Smoothed Return**:

$£10,000 / (1 + 0.04) = \mathbf{£9,615.39}$

Second Step

We allow for the **Smoothed Return**

Result of the first step:

£9,615.39

Smoothed Return:

+ 7.0%

We multiply the result of the first step by the sum of 1 + the **Smoothed Return**:

$£9,615.39 \times (1 + 0.07) = \mathbf{£10,288.47}$



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