

How your with-profits annuity works

Equitable Life

An annuity is an insurance policy which usually converts the premiums you have invested into an income which is paid throughout your life. Under a with-profits annuity, the amount of income you receive each year (called the total gross annual annuity) reflects the investment growth the with-profits fund has achieved and the bonus rate that you anticipated when you started the policy. The total gross annuity can be made up of three parts:

- the basic annuity guaranteed under the policy;
- the declared bonus annuity; and
- the final bonus annuity.

Basic annuity

We set the basic annuity guaranteed under the policy at the start of the contract. For most policies, this annuity reduces each year at a constant rate. This rate is the anticipated bonus rate you chose before the annuity started. We describe this reduction in the policy document. The higher the rate of anticipated bonus you chose, the higher the starting level of your basic annuity, but the higher the automatic reduction each year. Some policies have a basic annuity which starts:

- at a low level and so it does not need to reduce at a constant rate; or
- at an even lower level so that it needs to increase at a constant rate.

Declared bonus annuity

In past years the Board has added a declared bonus to with-profits policies. This adds to the basic annuity. This declared bonus is based on a number of factors including the performance of the with-profits fund. Once added, the declared bonus annuity is guaranteed, although it changes in line with the basic annuity each year, as described above.



How your with-profits annuity works (continued)

Final bonus

The final bonus is another type of bonus that we can add to with-profits policies. It is not guaranteed, and we can reduce or remove it. The final bonus is the amount that we need to add to the basic annuity, and the declared bonus annuity, to arrive at the total gross annual annuity.

Total gross annual annuity

Currently, the total gross annual annuity is:

- the guaranteed benefits (basic annuity and declared bonus annuity described above); or
- the amount we work out using the interim rate of growth set by the Board on the annuity value on the previous 31 December;

whichever is higher.

When a bonus decision takes effect, it sets the annuity value on 31 December for the previous calendar year. When we work out the total gross annual annuity after 1 February 2003, it will reflect all the reductions.

As with the declared bonus, we decide on the level of the total gross annual annuity (and, so, the final bonus) using a number of factors including how the with-profits fund has performed.

Your questions and answers

1 Can you give me an idea of how my income payment will be affected by the final bonus rates announced?

Unfortunately, we cannot give precise percentages of the levels of reduction in income before the change comes into force because:

- current bonus rates are not guaranteed in future; and
- there is a wide range of policies available.

However, we have produced some examples in the table opposite which we hope will help you.

To use the table opposite you need to know the date your policy started and also the anticipated bonus rate (ABR) you chose when you took your policy out. You can find both of these in your original policy documents.

Find your start date in the first column and then look for the ABR that is equal to or is closest to the ABR which applies to your policy. Then run along the row for the start date and down the column for the ABR. The percentage range is a guide to the approximate reduction to your gross income which will apply from the first policy anniversary on or after 1 February 2003.

For example, Mr Smith began his policy on 15 April 1997 with an ABR of 4.5% (please see shaded box). His current annual gross annuity is £4800 which means he receives a gross income of £400 on the first of each month. On 1 May 2003, the first payment date after the next policy anniversary, we will reduce his income by between 21% and 25%. This would mean his new monthly gross income would be between £316 (£400 less 21%) and £300 (£400 less 25%).

Approximate reduction to gross incomes			
Start date of policy	Anticipated bonus rate (ABR)		
	2.5%	4.5%	6.5%
1 January 1987 to 31 December 1994	22% to 26%	24% to 28%	25% to 29%
1 January 1995 to 30 June 1996	21% to 26%	22% to 28%	N/A
	Anticipated bonus rate (ABR)		
	4.5%	6%	7.5%
1 July 1996 to 31 December 1997	21% to 25%	22% to 26%	23% to 27%
1 January 1998 to 31 December 1998	17% to 21%	18% to 22%	N/A
1 January 1999 to 31 December 1999	12% to 19%	13% to 20%	N/A
1 January 2000 to 19 July 2000	11% to 13%	12% to 14%	N/A
20 July 2000 to 31 December 2000	7% to 13%	8% to 14%	N/A

Notes:

- 1 The anticipated bonus rate is the rate you chose before the annuity started. We describe this reduction in your policy document.
- 2 We will always pay, at least, the guaranteed benefits under the policy (the basic and declared bonus annuity). For that reason, the reductions shown in the table for policies which began in 2000 are significantly lower than the changes shown for earlier policies.
- 3 The reductions shown are not the largest or smallest which could arise as the range depends on future bonus rates.
- 4 N/A stands for not applicable or does not apply.

Your questions and answers (continued)

2 When will the reduction first affect me?

The major reduction will apply from the first income payment we make after the first anniversary of your policy on or following 1 February 2003. We will write to you (as we do every year) just before we make the first payment at the new level.

3 I have already suffered bonus reductions. You have greatly reduced your investments in stocks and shares so why should I suffer any further reductions?

There have been very substantial falls in stock markets. It was possible for us to phase in the effect on you in the hope of improved financial conditions. So far, we have largely protected your income level from these falls. We had hoped to spread the effect of changes gradually, but it is no longer fair on other policyholders to phase in the effect of these reductions.

4 You said that following the compromise scheme, the fund was £1 billion stronger and the uncertainties had ended. What's changed?

The compromise scheme we put in place earlier in the year did greatly improve our financial position at the time. But, since then, we have less money available because of the fall in investment markets and increases in the amounts we have to set aside for potential claims for compensation.

5 Why are you only making such large reductions to with-profits annuity policies?

Until now, we have largely protected you from the immediate effect of losses in the with-profits fund which are a result of investment-market conditions and our financial position. The changes we have announced will bring your situation into line with the position of our other policyholders.

6 I want to transfer my pension elsewhere. How do I go about it?

Unfortunately, it is not possible to transfer with-profits annuities.

7 How did you arrive at the figures?

During the last few years the value of the with-profits fund has reduced. We continued to add value to with-profits annuity policies. However, other policyholders have suffered significant reductions in their final bonuses. These measures bring your policy into line over the next two years. You will find details set out in the letter from Charles Thomson dated November 2002.

8 Is Equitable Life Assurance Society still solvent?

Yes, we are solvent.

9 Why did you send me a letter earlier in the year about rebasing annuities, when you were going to cut payments anyway?

It was not clear at the time of writing that letter in May (about the options for with-profits policies) that we would need to make these changes. However, investment-market conditions and our financial position have changed and the options are no longer possible.

10 I have another annuity which is not with profits. Will this be affected by these reductions?

No.