

Drawdown...

without the drawbacks

Flexible Income Annuity vs Income Drawdown

The new Flexible Income Annuity from MGM Advantage can offer your clients many of the advantages of income drawdown, but without many of the disadvantages.



How do they compare?

The Flexible Income Annuity matches the flexibility of drawdown

	Flexible Income Annuity	Income Drawdown
Freedom to choose from a range of income levels	✓	✓
Ability to vary income in retirement at any time	✓	✓
Access to a mix of investment funds	✓	✓
Flexibility to switch investments at any time	✓	✓
Regular income reviews	✓	✓
Option to buy a fixed income annuity	✓	✓

What's more, the Flexible Income Annuity has many benefits that no income drawdown product can match

	Flexible Income Annuity	Income Drawdown
Guaranteed income for life	✓	✗
Potential to choose higher income level beyond the age of 75	✓	✗
Benefit of mortality cross subsidy through lifetime bonuses	✓	✗
Enhanced rates for impaired lives	✓	✗
A simple range of investment funds, independently monitored by Old Broad Street Research	✓	✗

How could the income compare? (see section on Benefits of mortality cross subsidy)

	Initial Income	Cumulative income to end of year 14	Income payable in year 15	Fund value at end of year 15	Income received plus fund value at end of year 15
Income Drawdown	£7,080	£96,360	£6,640	£53,700	£156,700
Flexible Income Annuity	£7,508	£102,609	£7,122	£65,532	£175,263
Of the £18,563, approx £2,800 is due to lower charges and the balance of £15,763 is from mortality credits (Lifetime Bonus). Example basis - £100,000 pot, male age 60, single life basis, maximum income taken at outset and 7% growth projection basis.					Difference £18,563

Source - Conventional annuity is the average of the best 3 rates available in the market from Exchange. Income Drawdown quote is from Prudential. Both sourced October 2009.

Better value with a Flexible Income Annuity

Investment risk or risk of inflation

Both income drawdown and the Flexible Income Annuity rely on investment returns to deliver growth which can help to protect your clients from the effects of inflation. Of course, the value of investments can go up or down and your client needs to accept the risk that comes with an investment-backed product before they consider either option.

Many people are understandably cautious about exposing their retirement income to investment risk following the stock market falls of recent times but they also appreciate the need to help their savings to combat the erosive effects of inflation.

With an increasing number of people now spending up to 30 years in retirement, a conventional annuity with a fixed income can no longer be considered the “no-risk” option, unless your client buys it with inflation-proofing features, which will have a significant impact on your client’s starting income.

A quality product with down to earth charges

Many income drawdown products can be expensive to set up and people can incur a second set of charges if they move from income drawdown to an annuity when they reach age 75.

With the Flexible Income Annuity, there’s no need to change products at age 75 (although clients can transfer out at any time) and we’ve negotiated some excellent discounts on the Annual Management Charges of our active funds which we share by reducing the annual policy charge for clients.

A Minimum Income Guarantee that never falls

Although some income drawdown products offer some minimum income options that clients can add to their policies, the Flexible Income Annuity provides a simple Minimum Income Guarantee that is set on day one and will never fall during the lifetime of the main annuitant.

The Flexible Income Annuity minimum income guarantee is equal to 50% of the benchmark annuity available at outset. The benchmark is equal to the average of the three best conventional annuity rates at that time.

Benefits of mortality cross subsidy

With annuities, your clients benefit from mortality cross subsidy that’s not available with income drawdown.

This can make a significant difference to the income your client could receive over the years. The longer they live, the more Lifetime Bonus we’ll give them as our way of sharing mortality cross subsidy. Lifetime bonuses are added as units to your client’s fund each month and shown on their annual statement.

The table on the previous page shows the potential effects that Lifetime Bonuses could have on your client’s income, compared to an income drawdown product.

Member bonuses

Clients that take out a Flexible Income Annuity will also qualify as members of the Society. That means they'll receive full voting rights and member bonuses, without being invested in a traditional with profits fund.

Enhanced rates

If your clients have any health impairments (or are smokers), they may qualify for enhanced terms which could significantly increase the starting income they could receive.

Enhanced rates are not available with income drawdown.

Client already in income drawdown or an alternatively secured pension?

They can still purchase MGM's Flexible Income Annuity, providing their pension pot is worth more than £10,000 after their tax free cash.



Contact us

For more information, call our Retirement Income Specialists on **0845 608 61 71**

Or

for an instant quote call our quotes hotline on **0845 055 6055** or visit mgmadviser.com