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# Pension Annuities

## Key Features

**Authorised and regulated by the Financial Services Authority.**

Legal & General Assurance Society Limited

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Registered Office: One Coleman Street, London EC2R 5AA

A member of the Association of British Insurers

[www.legalandgeneral.com](http://www.legalandgeneral.com)

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# Key Features of the Legal & General Pension Annuity

## Its aims

- To provide an income which is payable for life.
- To allow you to provide benefits for your spouse or dependant if you die after your pension has started.

## **The following aim only applies to a with-profits pension annuity:**

- To give you the opportunity to benefit from an income which could be greater overall than that available from a non profit annuity.

## Your commitment

- You choose which pension benefits you want, subject to the rules of the pension scheme from which the fund originates.
- You can purchase a pension annuity with Legal & General with the proceeds of your pension fund, the exercise of an open market option or a single contribution paid by you or your employer.
- You will not be able to go to another company for an annuity with the same funds once the annuity has been bought with Legal & General.
- Once you have chosen your pension options and your pension income has started, you cannot change your mind. However, if you choose a with-profits pension annuity there are choices available within that option. Please see the section entitled 'How does a with-profits pension annuity work?'
- Once your income has started, your pension annuity cannot normally be surrendered other than in accordance with, for example, a court order requiring pension sharing in association with divorce.

## Risk factors

- Your circumstances might change after you take your benefits, for example if you get married after you buy your annuity, you cannot add a spouse's pension option.
- You may not have made adequate provision for your spouse or dependant when you die.
- The total payments which we make could amount to less than the sum used to purchase the annuity.
- If you have not made arrangements for your income to increase enough during payment, inflation would reduce what you can buy with your pension income.
- The pension annuity you can buy with your fund at any one time increases with age. It also goes up and down according to investment market conditions at the time you purchase the pension annuity. You could find you would have done better (or worse) by waiting for a change in investment market conditions.
- If on your death your dependant is no longer financially dependent on you because of a change in circumstances then no dependant's income will be paid.
- If your pension fund is currently invested in a contract where investment conditions can change, the value of your fund could change before your pension annuity is actually bought, and this would affect the amount of income you receive.

- State Pension Credit is available to supplement the income of those aged 60 or over and guarantees a certain level of income, taking into account any other income and savings you may have. Taking your retirement benefits may affect your entitlement to the State Pension Credit. Your retirement benefits currently have to be taken no later than your 75th birthday. For further information on Pension Credit you can obtain a leaflet from the Pension Service or obtain information from [www.thepensionservice.gov.uk](http://www.thepensionservice.gov.uk)
- The law and tax rates may change in the future.

## **The following risk only applies to a with-profits pension annuity:**

- The income you receive from a with-profits pension annuity will vary each year, depending on the Anticipated Bonus Rate you have selected and any bonuses declared by Legal & General. This means your annual income could go up or down from year to year. You must consider whether you can afford to take the risk that your income may go down, especially if you will rely on that income to maintain your standard of living.
- Bonuses depend upon the experience of the underlying fund and in particular the investment return earned, mortality and expenses. For example, higher investment returns or mortality and lower expenses can lead to higher bonus rates, whereas lower investment returns or mortality and higher expenses can lead to lower bonus rates.
- The higher the Anticipated Bonus Rate you select, the greater the risk that the amount of income you receive from your with-profits annuity will fall in the future.
- The benefits provided by a with-profits pension annuity may be higher or lower than the benefits of a non profit pension annuity, and that relationship can change from year to year.
- Any investment in a with-profits pension annuity will share in the risks of other with-profits pension annuities which can reduce your bonuses and therefore the amount we pay you. You also share in the risks of other with-profits policies such as bonds.
- We write with-profits and non profit policies in our Long Term Fund. We provide guarantees for both with-profits and non profit policies and the assets in the whole fund are ultimately available to meet them. This means that although you may benefit from support from assets backing non profit business, we could reduce the amount we pay you if we have to use the assets backing with-profits business to support non profit business.
- Past performance is not an indicator of future performance.
- If you decide to change your Anticipated Bonus Rate after your annuity has been set up, you might be worse off than if you had chosen that level of Anticipated Bonus Rate from outset.
- Please read the 'Introduction to With-Profits' brochure (referred to in the 'With-Profits' part of the "Further Information" section) in conjunction with this Key Features document. It will give you more detail on the technical terms we have referred to above.

# Your questions answered

## How does a pension annuity work?

When you decide to take your benefits you use your pension fund, or any personal pension contribution you or your employer have made for immediate retirement, to buy a pension annuity which will provide you with an income for life. If you buy a pension annuity before the date you originally selected when you started your pension, your pension income might be smaller than you expected as your pension will have had less time to grow, and the pension will be paid for longer. You can buy a Legal & General annuity if you are under 75 years of age at the commencement date of the annuity.

The amount of income you will receive depends on investment market conditions at the time you buy your pension annuity and a number of factors including the size of your pension fund, your age, sex and the payment options that you choose.

You can use the whole of your fund to buy an annuity. Normally there is an option, when you take your benefits, to take part of your pension fund as a tax-free cash sum. If you take a tax free cash sum, the remainder of the pension fund is then used to buy a pension annuity.

There are no restrictions on the value of the total benefits payable from all your Registered Pension Schemes. However, anything over a certain limit, called the Lifetime Allowance, will be subject to a tax charge of up to 55% on the excess. For the 2007/2008 tax year, the Standard Lifetime Allowance has been set at £1.6 million, rising to £1.8 million for the tax year 2010/2011 and will be reviewed on an ongoing basis after that.

For most people, the Lifetime Allowance will be the Standard Lifetime Allowance. However, you may be entitled to an increased Personal Lifetime Allowance in certain circumstances. For more information please speak to a financial adviser.

Please note that Legal & General will not accept any funds into an immediate vesting Personal Pension which are in excess of the Lifetime Allowance. In the case of an open market option, we will accept benefits in excess of the Lifetime Allowance provided that the charge has been calculated and paid by the scheme. If you are unsure how much of your Lifetime Allowance you have used up or whether you are liable for a tax charge, please consult your financial adviser.

An immediate vesting transfer will be administered on the basis that **it is not** part of a block transfer. Please refer to HM Revenue & Customs (HMRC) Registered Pension Schemes manual for further information on block transfers.

A copy of the terms and conditions of the plan is enclosed. If you have not received a copy please contact your financial adviser.

## How much pension will I be paid?

Inside this Key Features document you will find a quotation showing how much income you might expect to receive. The actual amount of income will vary according to the options you choose. The quotation assumes that your benefits do not exceed your Lifetime Allowance, or that any Lifetime Allowance charge has been deducted and paid by the ceding scheme. If this is not the case, Legal & General will not accept your application.

Once your annuity has been set up, you will be notified of the percentage of the Lifetime Allowance you have used up by taking these benefits, either by your scheme administrator or by Legal & General.

## What are my annuity options?

There are a number of options available to choose from; the main choices are listed below. These may be restricted by the rules of the scheme that your pension fund came from.

1. A level income that is fixed for the rest of your life.
2. A smaller income at outset that increases each year at a fixed rate, for example 3% a year.
3. A smaller income at outset and link your pension to the cost of living via the Retail Prices Index (RPI), which may or may not increase each year. You may choose to have the increase capped at 5%, referred to as Limited Price Indexation (LPI).
4. A smaller income at outset in exchange for an income which would be paid to your spouse or dependant if you die first.
5. A guarantee that the income will be paid for an agreed number of years even if you die during the guarantee period.
6. To choose how frequently and when your income payments are made – monthly, quarterly, half yearly or yearly, in advance or in arrears.
7. To choose a non profit and/or, if allowable, a with-profits annuity. By choosing a non profit annuity the amount of your future income is guaranteed.

A with-profits annuity provides an income that enables you to share in the long-term growth potential of a 'with-profits' investment during your retirement. If you choose a with-profits annuity your income will change each year depending on any bonuses declared by Legal & General and the Anticipated Bonus Rate you have selected. See 'How does a with-profits annuity work?'

Please note, a with-profits annuity is only available if your fund does not include any benefits arising from contracting-out of the earnings related part of the State Pension Scheme, or benefits that require a predetermined level of increases during payment.

## How do I make a personal pension contribution for immediate retirement?

You can make a lump sum contribution into Legal & General Personal Pension Scheme No.1. You pay your personal contribution net of basic rate tax relief (which for tax year 2007/2008 is 22% and for 2008/2009 will be 20%). We then automatically reclaim basic rate tax relief from HM Revenue & Customs and we invest the total of your contribution and the tax relief; this is called the 'gross' payment. If you pay higher rate tax you should claim the extra relief through your tax office. The value of tax relief will depend on your individual circumstances. For details on how much you can contribute and qualify for tax relief, please contact your financial adviser.

Your personal (net) contribution payable to Legal & General must come from your personal bank account and should accompany the completed application form and any relevant certificates to the address on the application form.

We can also accept employer's contributions for immediate retirement into this contract. The gross amount is payable by cheque to Legal & General.

The enclosed quotation shows the gross contribution chosen together with the pension annuity options selected.

## How long is my quotation guaranteed for?

The rate used in your quotation is guaranteed for a limited period. Details of this are shown on the quotation.

## What happens if the quotation has expired?

If your quotation has expired, Legal & General will inform you through your financial adviser if there is a change in the annuity rate to be used.

## What should I do if I want to accept this quotation?

If you would like to proceed with the annuity on this basis, please complete the enclosed application.

## What should I do if I want to see other quotations?

You can ask Legal & General to provide other quotations if you are interested in any other options that have been outlined.

Alternatively, you may approach any other life insurance company, either through an independent financial adviser or directly, and ask them for a quotation.

Our advisers can only give advice on Legal & General products.

## How are any benefits from contracting-out treated?

If your pension fund includes benefits arising from contracting-out of the Earnings Related part of the State Pension Scheme, your benefit will contain either Guaranteed Minimum Pension (GMP), Protected Rights benefits or S9(2B) Rights.

Certain restrictions apply to the way these benefits are paid. For example, you may have to provide a pension for your spouse if you die first. If you have Protected Rights benefits, the annuity rate used to convert your fund into an income must be the same regardless of your sex. If you have GMP benefits, your income may have to increase by a set percentage each year. If these restrictions apply they will be shown on your personal quotation.

## Do I pay tax on my income?

Yes, the income will be subject to income tax according to instructions we have received from your local tax office under the Pay As You Earn (PAYE) system. Current tax rates and allowances could change in the future.

If you have chosen a spouse's or dependant's pension option, any income paid to them will also be subject to tax.

## What are the charges for?

Not all of your fund will be used to provide a pension and/or tax-free cash sum. Some of it will go to meet our expenses for administration, investment management, and any commission that we pay to your financial adviser.

The expenses used in the accompanying quotation are based on our current experience. The charges to meet these expenses for all non profit annuities are fixed at outset and do not affect your future income payments.

The expenses incurred for the with-profits annuity are considered at outset and reviewed each year thereafter. The level of expenses could change and will be reflected in future bonus declarations, which could affect the level of income you or your dependant receive each year.

## How much will the advice cost?

Legal & General may pay commission to your financial adviser for arranging your plan. It will be paid for out of the charges. Commissions and other benefits depend on the size of the purchase money buying the annuity. Details of the commission payable are included in the quotation.

## How does a with-profits pension annuity work?

A with-profits annuity provides lower guarantees than a non profit annuity, but offers the prospect of future bonuses. These bonuses may increase your pension income above the level of a non profit annuity. However, as future bonus rates are not guaranteed you may ultimately receive less under a with-profits annuity than you would have received under a non profit annuity.

As bonuses will vary from year to year, your income under a with-profits annuity may fall as well as rise, so you should consider whether you are prepared to take the risk that your income could fall.

Bonuses will depend on investment performance, the expenses we have incurred and our mortality experience. The levels of future bonus rates are not guaranteed and they may even be zero. Bonuses are normally declared in February each year and, if applicable, are added to the policy on the next alteration date following the declaration. For most people, the policy alteration date will be the anniversary of the policy commencement date. More details will be contained in your policy document.

Your money is invested in the with-profits section of Legal & General's UK long term fund. This fund invests in a broad spread of assets including stocks and shares, fixed interest securities, UK property and cash.

**The following terms are key to the operation of a with-profits annuity. It is important that you read and understand these terms.**

There are two types of bonus that may be added to your policy:

### Annual Bonus

This is the level of bonus we apply at the policy alteration date which once added cannot be withdrawn. However your chosen Anticipated Bonus Rate (see page 5) may eat into the value of your future income payments.

### Temporary Bonus

The level of your income payments, before any Temporary Bonus, will be determined by the Anticipated Bonus Rate and annual bonuses declared. To this payment, Temporary Bonus may be added, depending on, for example, the underlying investment and mortality experience to date. As the name implies, it is a temporary addition to the normal income payment.

If a non-zero temporary bonus is declared, it will start at the next policy alteration date and it will only be payable for one year. It is important to understand that the Temporary Bonus rate can be changed or withdrawn at any time, is not guaranteed, could be zero, and any new rate will apply from the next policy alteration date. The Temporary Bonus is not included in the ongoing calculation of the effect of the Anticipated Bonus Rate at each alteration date.

### Anticipated Bonus Rate (ABR)

A factor that determines the starting level of your pension is the Anticipated Bonus Rate (ABR). Basically, the ABR is a mechanism that allows you to exercise your own judgement as to the likely future level of bonus rates, and to use this to choose an ABR that will help you to achieve your desired pattern of income payments - level, increasing or decreasing. The ABR you choose will affect your starting level of income as follows:

- Choosing a low ABR means your starting level of income is lower but the potential for future income increases is greater. You also reduce the risk that your income may go down from year to year.
- Choosing a high ABR means that your starting level of income is higher but the potential for future income increases is reduced. There is therefore also a higher risk that your income may fall from year to year.

We highly recommend that you compare a number of different quotations with different levels of ABR before you make a decision. It is important to realise that, even if you choose a low ABR in anticipation of an increasing income payment, it does not guarantee this will happen as other factors will also influence the outcome.

Your pension income will only change on a policy alteration date. An example of how the income from a with-profits annuity can change as a result of the bonuses declared is shown on the next page. The figures shown are based on ABRs of 0% and 4%.

Please note that the figures are only simplified examples to demonstrate how the declared bonuses are applied to a with-profits annuity and in particular how the bonuses affect policies with different ABRs. In the examples shown you can see how the income from the policy with a 0% ABR rises each year, but the income from the policy with a 4% ABR falls in year two. The figures that apply to your policy will almost certainly be different. Each year, a full statement with details relevant to your with-profits annuity will be issued shortly before your policy alteration date.

### Varying your ABR

After your policy has started you may be able to vary your selected ABR on any policy alteration date, subject to certain conditions. Please note, after age 75 you cannot vary your ABR.

You may wish to vary your ABR if your investment outlook changes and you believe that bonuses will not turn out to be at the level that you had first expected. If you make an application to vary your ABR then we will take account of investment market conditions at that time. We may require medical evidence in order to proceed and we reserve the right to decline your application as a result. You may be charged for any expenses which we incur as a result of any medical underwriting required and the administration costs of varying the ABR. Any such costs will be factored into the revised level of income we quote to you.

If you vary the ABR under your policy it may have a significant impact on the income payments you receive in subsequent years. Please note that varying your ABR in the future could leave you worse off than if you had selected that level of ABR at outset. You should seek financial advice before exercising this option.

### What is the 'guaranteed minimum' annuity?

Though the with-profits annuity carries a risk that income may reduce, the policy has a guarantee to provide a minimum level of income below which the income cannot fall.

The level of the guaranteed minimum annuity will be a percentage, depending on the ABR chosen, of the initial annuity payable. The table below shows the percentages.

ABR Selected	Minimum income as a % of the starting annuity
0%	100
0.1% - 1%	75
1.1% - 2%	60
2.1% - 3%	50
3.1% - 4%	40
4.1% - 5%	30

It is important to note that the income under a with-profits annuity may fall if bonus rates do not match the ABR selected, from year to year. It is possible that the level of income could fall to as low as 30% of the initial amount if an ABR of between 4.1% and 5.0% (inclusive) is selected.

This guaranteed minimum amount will not change after the pension has started unless the ABR is altered. If the ABR is changed, a new starting level of pension and revised guaranteed minimum annuity will be quoted at that time. The guaranteed minimum annuity will also apply proportionally to any spouse's/dependant's benefit payable under the policy.

Please refer to the enclosed quotation for specific details of the level of your guaranteed minimum annuity.

### Can I change to a non profit pension annuity?

A with-profits pension annuity can be converted to a non profit pension annuity, either on a fixed or increasing basis, in the event of divorce or dissolution of a registered civil partnership, or at any time after the first anniversary of your policy starting. After you die your spouse or dependant also has this option if an annuity under your policy is payable to them. Converting your policy will change the amount of income we pay, but the level of income will then be guaranteed. Once a with-profits pension annuity has been converted, the conversion cannot be reversed. It is not possible, at any time, to convert a non profit pension annuity to a with-profits pension annuity.

Terms for the conversion will take account of the investment market conditions at the time and we may require medical evidence in order to proceed. Please note, we reserve the right to make a charge for obtaining the medical evidence and carrying out the conversion. Further details can be found in the Pension Annuities Technical Guide which is available on request.

## With-Profits Annuity - example income calculation

ABR selected at outset	0%	4%
Starting level of income in this example on 1 January	£2,000	£2,900
<b>On the first policy alteration date the level of income is recalculated as follows:</b>	<b>Annual Bonus declared in year 1: 3% Temporary Bonus declared in year 1: 0.5%</b>	
a) The first step would normally be to remove last year's Temporary Bonus. However, since the policy has only been running for one year there is no Temporary Bonus from last year to be removed	£2,000 - 0 = £2,000	£2,900 - 0 = £2,900
b) Reduce the income payment by the ABR: We do this by dividing your income by 1 plus the ABR	£2,000 / (1+0) = £2,000	£2,900 / (1+0.04) = £2,788
c) Add the Annual Bonus declared this year to the result	£2,000 x 1.03 = £2,060	£2,788 x 1.03 = £2,872
d) Calculate Temporary Bonus based on the revised level of income and multiply this by the number of years the policy has been in force	£2,060 x (0.5 / 100) x 1 = £10	£2,872 x (0.5 / 100) x 1 = £14
e) Add the result from steps c) and d) together to give the new level of income from 1 January in year 2	£2,060 + £10 = £2,070	£2,872 + £14 = £2,886
<b>On the second policy alteration date the level of income is recalculated using the same method as follows:</b>	<b>Annual Bonus declared in year 2: 2.5% Temporary Bonus declared in year 2: 1.0%</b>	
a) Remove last year's Temporary Bonus	£2,070 - £10 = £2,060	£2,886 - £14 = £2,872
b) Reduce the income payment by the ABR	£2,060 / (1+0) = £2,060	£2,872 / (1+0.04) = £2,762
c) Add this year's declared Annual Bonus	£2,060 x 1.025 = £2,112	£2,762 x 1.025 = £2,831
d) Calculate the Temporary Bonus and multiply this by the number of years the policy has been in force, which is now two years	£2,112 x (1.0 / 100) x 2 = £42	£2,831 x (1.0 / 100) x 2 = £57
e) Add the results from steps c) and d) together to give the new level of income from 1 January in year 3	£2,112 + £42 = £2,154	£2,831 + £57 = £2,888
<b>On the third policy alteration date the level of income is recalculated using the same method as follows:</b>	<b>Annual Bonus declared in year 3: 3% Temporary Bonus declared in year 3: 1.25%</b>	
a) Remove last year's Temporary Bonus	£2,154 - £42 = £2,112	£2,888 - £57 = £2,831
b) Reduce the income payment by the ABR	£2,112 / (1+0) = £2,112	£2,831 / (1+0.04) = £2,722
c) Add this year's declared Annual Bonus	£2,112 x 1.03 = £2,175	£2,722 x 1.03 = £2,804
d) Calculate the Temporary Bonus and multiply this by the number of years the policy has been in force, which is now three years	£2,175 x (1.25 / 100) x 3 = £82	£2,804 x (1.25 / 100) x 3 = £105
e) Add the results from steps c) and d) together to give the new level of income from 1 January in year 4	£2,175 + £82 = £2,257	£2,804 + £105 = £2,909

Amounts are shown in whole pounds. Your actual calculations will be in pounds and pence.

# Further information

## About Legal & General

The Legal & General Group, established in 1836, is one of the UK's leading financial services companies. We are one of the UK's top 50 companies in the FTSE 100 Index. Over 5.75 million people rely on us for life assurance, pensions, investments and general insurance plans. The Legal & General Group is responsible for investing over £257 billion worldwide (as at 30 June 2007) on behalf of investors, policyholders and institutions.

## Queries or complaints

For further information or if you wish to complain about any aspect of the service you have received from Legal & General, we can give you a leaflet that sets out our internal complaint handling procedure. Please contact us at:

Legal & General Assurance Society Limited  
Kingswood, Tadworth, Surrey KT20 6EU  
Telephone: 01737 370370

We may record and monitor calls.

Complaints regarding our administration that we cannot settle can initially be referred to:

The Pensions Advisory Service  
11 Belgrave Road, London SW1V 1RB  
Telephone: 0845 601 2923  
Email: [enquiries@pensionsadvisoryservice.org.uk](mailto:enquiries@pensionsadvisoryservice.org.uk)  
Website: [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

and may then be referred to:

The Pensions Ombudsman  
11 Belgrave Road, London SW1V 1RB  
Telephone: 020 7834 9144  
Email: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)  
Website: [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

Sales-related complaints that we cannot settle can be referred to:

The Financial Ombudsman Service  
South Quay Plaza, 183 Marsh Wall, London E14 9SR  
Telephone: 0845 080 1800  
Email: [complaint.info@financial-ombudsman.org.uk](mailto:complaint.info@financial-ombudsman.org.uk)  
Website: [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)

Making a complaint to The Pensions Advisory Service or the Financial Ombudsman will not prejudice your right to take legal proceedings.

## Compensation scheme

The Financial Services Compensation Scheme covers us. You may be entitled to compensation from the scheme if we cannot meet our obligations. This depends on the type of business and the circumstances of the claim. You can get more information from the Financial Services Compensation Scheme. Currently, the first £2,000 of a claim is protected in full. Above this amount, the Scheme covers payment to 90% of the value of a policy in liquidation.

## Our Regulator

We are authorised and regulated by the Financial Services Authority. We are entered on their register under number 117659. You can check this at [www.fsa.gov.uk/register](http://www.fsa.gov.uk/register) or telephone them on 0845 606 1234.

## Tax

This information is based on our understanding of the current law relating to pensions.

## The Civil Partnership Act

The Civil Partnership Act 2004 (CPA) came into force on 5 December 2005 and provides a system of registration for same sex relationships. Registered civil partners will be in a relationship akin to marriage in respect of the laws of survivorship and benefits. As such all references to the rights and benefits of a spouse or widow(er) in any of our literature will apply equally to married couples and registered civil partners.

## Cancellation rights

If you apply for a Legal & General annuity, you have 30 days from the date of your first quotation to change your mind. If you return the application form before the 30 days have passed, the annuity will not commence until at least 14 days of the 30 days have passed. You will then have the unexpired balance of the 30 days cancellation period to cancel the contract.

### **The following applies to a personal pension contribution for immediate retirement only:**

When we receive your application and cheque we will send you a notice of your right to cancel. By law we have to send you this notice. You will then have 30 days in which to change your mind.

### **For all plans:**

If you wish to cancel your application you must complete the cancellation form and post it back to us at:

Legal & General Annuities Department  
PO BOX 809, Cardiff CF24 0YL

We will then cancel the plan. If you do not take this opportunity to cancel, your plan will continue and your benefits will continue to be paid.

If you decide to cancel we will make every effort to return the original payment to the original source. They may not be obliged to accept the return of this payment. If they will not accept the return of the payment you can either arrange for your annuity to be purchased with another provider and we will forward the monies to them, or your annuity with us will continue.

If you have received any benefits from the annuity, you must return this money to Legal & General within 30 days of sending your notice of cancellation to us.

## Law and language

English law governs this contract. We will communicate in English throughout the course of this contract.

## With-Profits

Our regulator, the Financial Services Authority (FSA), requires us to publish a document called "Principles and Practices of Financial Management" (PPFM) which is a detailed description of our approach to managing with-profits investments.

In addition to this, the FSA also requires us to produce a guide which summarises the main points of the PPFM. This is called an "Introduction to With-Profits" and you can ask us or your adviser for a copy of both of these documents.