

# WITH-PROFITS APPENDIX TO ANNUITY POLICY OR MEMBER'S POLICY BOOKLET

Special terms for With-Profits annuity

**PRUDENTIAL**

# SPECIAL TERMS FOR WITH-PROFITS ANNUITY

THIS APPENDIX DESCRIBES THE OPERATION OF THE WITH-PROFITS ANNUITY.

WHEN ISSUED, THIS APPENDIX IS PART OF AND NEEDS TO BE READ IN CONJUNCTION WITH THE POLICY OR MEMBER'S POLICY BOOKLET.

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# 1 MEANING OF WORDS

## 1.1 SPECIAL WORDS AND EXPRESSIONS IN THE ANNUITY POLICY OR MEMBER'S POLICY BOOKLET

The special words and expressions in the **Policy** or **Member's Policy Booklet** also apply to this Appendix.

"**Member's Policy Booklet**" and "**Policy**" are both used in this Appendix, but only one of these is relevant. "**Member's Policy Booklet**" is relevant only to annuities under the Immediate Vesting Personal Transfer Plan. For all other types of annuity, "**Policy**" is relevant.

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

## 1.2 ADDITIONAL SPECIAL WORDS AND EXPRESSIONS

The following additional special words and expressions apply to this Appendix:

### **additional income**

This is an amount that may be included each year within the **annuity** for a period of 12 months. Subject to section 5.3 of this Appendix, the amount (if any) is determined each year by reference to our additional bonus rate. The effect of our additional bonus rate on the income is described in section 4.3 of this Appendix.

### **annuitant and annuity**

**Annuitant** means either the **first annuitant** or, if there is one, the **second annuitant**, and **annuity** means either the **first annuity** or, if there is one, the **second annuity**. If there is a **third annuity** in relation to any **protected rights pension** (see section D3 of the **Policy** or section C3 of the **Member's Policy Booklet**), then these expressions also include the **third annuitant** and

**third annuity**. For the avoidance of doubt, however, section 7 of this Appendix sets out the minimum income guarantee provisions separately for the **first annuity** and the **second annuity** and/or **third annuity**.

### **anticipated bonus rate**

This means the **chosen anticipated bonus rate** and/or the **protected rights anticipated bonus rate** (as appropriate).

If, for example, the **annuity** consists of both **non-protected rights pension** and **protected rights pension**, the **annuity** is subject to a **chosen anticipated bonus rate** and a **protected rights anticipated bonus rate**. The **chosen anticipated bonus rate** and the **protected rights anticipated bonus rate** may or may not be the same (see section 3 of this Appendix).

### **chosen anticipated bonus rate**

This is the rate of anticipated bonus used to determine the level of income provided by any part of the **annuity** that is **non-protected rights pension**.

The **policyholder** or **first annuitant** selects the initial **chosen anticipated bonus rate** at the **annuity start date**.

A **chosen anticipated bonus rate** may be changed at the **annuity change date** as described in section 8 of this Appendix.

### **non-protected rights pension**

This is the annual amount payable under either the **first annuity** or, if there is one, the **second annuity**, not including any **guaranteed minimum pension**, **protected rights pension** or benefits payable from a **registered pension scheme** in the form of a **scheme pension**.

The income provided by any part of the **annuity** that is **non-protected rights pension** is described in the Yearly Statement as "standard With-Profits income".

**protected rights anticipated bonus rate**

This is the rate of anticipated bonus used to determine the level of income provided by any part of the **annuity** that is **protected rights pension**.

For the period from the **annuity start date** to the first **annuity change date**, the initial **protected rights anticipated bonus rate** must be 0%.

A **protected rights anticipated bonus rate** may be changed at the **annuity change date** as described in section 8 of this Appendix.

**regular income**

This is the part of the **annuity** that is determined by reference to our regular bonus rate and the **anticipated bonus rate**. The effect of our regular bonus rate and **anticipated bonus rate** on the income payable is described in section 4.3 of this Appendix.

The **regular income** will be subject to change if the **anticipated bonus rate** is changed (see section 8 of this Appendix).

## 2 GENERAL

- (a) If the **annuity** is a **With-Profits annuity**, the accepted **Annuity Quotation** will be entitled "With-Profits Annuity Illustration".
- (b) A **With-Profits annuity** pays the **annuitant** a retirement income linked primarily to the performance of the Prudential With-Profits Fund. We share our profits from the performance of the With-Profits Fund with With-Profits investors by paying bonuses each year. Depending on the size of the bonuses and the **anticipated bonus rate**, the **annuity** could go up or down each year. The size of our bonuses is not guaranteed and could be zero.
- (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 a **With-Profits annuity**.

# 3

## ANTICIPATED BONUS RATE

- (a) When a **With-Profits annuity** is selected:
- if any part of the **annuity** is **non-protected rights pension**, we ask the **policyholder** or **first annuitant** to select a **chosen anticipated bonus rate**. The **chosen anticipated bonus rate** selected must be within the range set from time to time by Prudential and is shown on the **Annuity Quotation**; and
  - if any part of the **annuity** is **protected rights pension**, the initial **protected rights anticipated bonus rate** of 0% is shown on the **Annuity Quotation**.
- (b) Subject to section 9 of this Appendix, the amount of the **annuity** is determined by reference to a number of factors as described in the **Key Features document**. One of these factors is the **anticipated bonus rate**.
- (c) The **anticipated bonus rate** influences:
- how much the **regular income** part of the **annuity** will be each year; and
  - how much of the **regular income** part of the **annuity** is guaranteed.

This is explained further in sections 4 and 7 of this Appendix.

The **policyholder** or **annuitant** can change the **anticipated bonus rate** in accordance with section 8 of this Appendix.

# 4

## THE PRUDENTIAL 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 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 bonuses, charges and other deductions referable to With-Profits policyholders, we will always act in good faith 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 BONUSES

- (a) General

Each year, we may declare two types of With-Profits bonus, which affect the levels of the **annuity** in different ways. The size of these bonuses is not guaranteed and will change from year to year based mainly on the performance of the With-Profits Fund.

The With-Profits bonuses take into account the past and expected future performance of the With-Profits Fund, the charges we deduct and trends in life expectancy. We balance the size of the bonuses 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. In particular, however poorly investments might perform, we never declare a negative bonus. At the worst, we may declare a bonus of zero.

- (b) Regular bonus

This has an effect on the **regular income** part of the **annuity** as follows:

- If the relevant regular bonus rate declared is higher than the **anticipated bonus rate**, the **regular income** will increase.
- If the relevant regular bonus rate declared is the same as the **anticipated bonus rate**, the **regular income** will stay the same.
- If the relevant regular bonus rate declared is lower than the **anticipated bonus rate**, the **regular income** will decrease (but the total **annuity** including any **additional income** will never fall below the minimum income guarantee, 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.

- (c) Additional bonus

This provides an **additional income**, payable for 12 months, on top of the **regular income**, as part of the **annuity**. At the end of each 12 month period the **additional income** is revised as described in section 5.2 of this Appendix.

Additional bonus is not guaranteed. We may reduce or stop paying additional bonuses at any time if we believe investment conditions require this. However the **additional income** will, as described in section 5.3 of this Appendix, remain unchanged for the full 12 month period once it has come into payment.

## 4.4 WITH-PROFITS INFORMATION

Each year we currently publish various guides describing how we decide what our With-Profits bonuses will be.

We currently publish, and make available, a brochure called "Your With-Profits Plan – A Guide To How We Manage The Fund" which describes our bonus policy and the operation of our With-Profits business in greater detail.

The **policyholder** or **annuitant** can ask us to provide copies of any of our guides.

Prudential's "Principles and Practices of Financial Management" document is also available. It describes how we manage our With-Profits business. A copy can be obtained on our website at [www.pru.co.uk](http://www.pru.co.uk)

# 5 CHANGES TO THE ANNUITY

## 5.1 GENERAL

The **annuity** can go down or up each year.

The amount of the **annuity** will be reviewed each year and may be changed following our yearly With-Profits bonus declaration.

We calculate the new levels of the **annuity** based on:

- the difference between the current **anticipated bonus rate** and the relevant regular bonus rate that we declare; and
- the relevant additional bonus rate that we declare (which may in turn take account of the length of time elapsed since the **annuity start date**).

We will give the **annuitant** details of the new amount of the **annuity** before we start to pay it.

## 5.2 CALCULATION

To work out the new level of the **annuity** for each year we apply the following calculation:

- Firstly, we determine the **regular income** for the last year. We do this by taking away the **additional income** (if any) for the last year from the level of the **annuity** for the last year.
- Secondly, we reduce the **regular income** for the last year to allow for the **anticipated bonus rate**. We do this by dividing the **regular income** by the sum of 1 + the **anticipated bonus rate**.
- Thirdly, we increase the result of the second step to allow for the new regular bonus rate. We do this by multiplying the result of the second step by the sum of 1 + the new regular bonus rate. The result of this third step is the new **regular income**.

- Fourthly, we determine the new **additional income** (if appropriate). We do this by multiplying the new **regular income** by the new additional bonus rate.
- Finally, we add the new **additional income** (if any) to the new **regular income**.

If the **annuity** consists of both **non-protected rights pension** and **protected rights pension**, we apply this calculation separately to each of these parts using the levels of income and the **anticipated bonus rate** relevant to each part. The results of the two calculations are then added together.

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

The new level of the **annuity** will take effect as described in section 6 of this Appendix.

An example of how this calculation works can be found in section 10 of this Appendix.

## 5.3 ADDITIONAL INCOME – SPECIAL PROVISIONS

If investment conditions change significantly after we announce the additional bonus rate, we can cancel or change it. If this happens after the **annuity change date** (see also section 6 of this Appendix), the **additional income** will not be affected and will continue unchanged at the original rate we declared for the rest of the 12 month period. If, however, we revise the new additional bonus rate before the **annuity change date** (see also section 6 of this Appendix), the revised additional bonus rate will apply and the **additional income** (and consequently the **annuity**) will be calculated accordingly.

## 6

# EFFECTIVE DATE OF CHANGES TO THE ANNUITY

The effective date of:

- changes to **regular income**; and
- changes to the **additional income**;

is the **annuity change date** next 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 MINIMUM INCOME GUARANTEE

## 7.1 GENERAL

In the case of a "joint life" **annuity**, the minimum income guarantee applies separately to the **first annuity**, **second annuity** and/or **third annuity**.

If one part of the **annuity** is **non-protected rights pension** and the other part is **protected rights pension**, the minimum income guarantee also applies separately to each of these parts of the **annuity**.

## 7.2 LEVEL OF MINIMUM INCOME GUARANTEE APPLICABLE TO THE FIRST ANNUITY

(a) Subject to section 8.1(c) of this Appendix, the level of income provided by any part of the **first annuity** that is **non-protected rights pension** will never fall below the minimum level set out below:

chosen anticipated bonus rate	Minimum Income Guarantee
0%	100% of the annual amount of the part of the <b>first annuity</b> that is <b>non-protected rights pension</b> at the time the <b>first annuity</b> started
Less than 1%	85% "
1% to less than 2%	75% "
2% to less than 3%	65% "
3% to less than 4%	60% "
4% and over	55% "

(b) Subject to section 8.1(c) of this Appendix, the level of income provided by any part of the **first annuity** that is **protected rights pension** will never fall below the minimum level set out below:

protected rights anticipated bonus rate	Minimum Income Guarantee
0%	100% of the annual amount of the part of the <b>first annuity</b> that is <b>protected rights pension</b> at the time the <b>first annuity</b> started
Less than 1%	85% "
1% to less than 2%	75% "
2% to less than 3%	65% "
3% to less than 4%	60% "
4% and over	55% "

### 7.3 LEVEL OF MINIMUM INCOME GUARANTEE APPLICABLE TO THE SECOND ANNUITY, IF THERE IS ONE

(a) Subject to section 8.1(c) of this Appendix, the level of income provided by any part of the **second annuity** that is **non-protected rights pension** will never fall below the minimum level set out below:

chosen anticipated bonus rate	Minimum Income Guarantee
0%	100% of the annual amount of the part of the <b>second annuity</b> that is <b>non-protected rights pension</b> at the time the <b>first annuity</b> started
Less than 1%	85% "
1% to less than 2%	75% "
2% to less than 3%	65% "
3% to less than 4%	60% "
4% and over	55% "

(b) Subject to section 8.1(c) of this Appendix, the level of income provided by any part of the **second annuity** that is **protected rights pension** will never fall below the minimum level set out below:

protected rights anticipated bonus rate	Minimum Income Guarantee
0%	100% of the annual amount of the part of the <b>second annuity</b> that is <b>protected rights pension</b> at the time the <b>first annuity</b> started
Less than 1%	85% "
1% to less than 2%	75% "
2% to less than 3%	65% "
3% to less than 4%	60% "
4% and over	55% "

The annual amount of the **second annuity** is expressed as a percentage of the annual amount of the **first annuity** as shown in the **Annuity Quotation**.

### 7.4 LEVEL OF MINIMUM INCOME GUARANTEE APPLICABLE TO THE THIRD ANNUITY, IF THERE IS ONE

If there is a **third annuity**, this replaces the part of the **second annuity** that is **protected rights pension**. Subject to section 8.1(c) of this Appendix, the level of minimum income guarantee set out in the table in section 7.3(b) of this Appendix therefore applies. For example, if the **protected rights anticipated bonus rate** is 0%, the **third annuity** is guaranteed never to be less than 100% of the annual amount of the part of the **second annuity** that is **protected rights pension** at the time the **first annuity** started.

# 8

## CHANGE TO ANTICIPATED BONUS RATE

### 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 elect to change the **anticipated bonus rate** at the **annuity change date**. The following provisions apply to this option:

- (a) The new **anticipated bonus rate** must be within the range set from time to time by Prudential.
- (b) No further changes to the **anticipated bonus rate** can be made for a period of at least 3 years.
- (c) The level of minimum income guarantee (set out in the second column of the relevant table in section 7.2 or 7.3 of this Appendix) will change to that applicable to the new **anticipated bonus rate**.

The new level of minimum income guarantee applies to the new level of **regular income**, calculated on a basis to be determined by Prudential, using the new **anticipated bonus rate**.

If the **annuity** consists of both **non-protected rights pension** and **protected rights pension**, we will carry out the calculation separately for each part of the **annuity**.

If when the **second annuity** and/or **third annuity** starts there has been a previous change of **anticipated bonus rate** in respect of the **first annuity**, the minimum income guarantee in respect of the **second annuity** and/or **third annuity** will apply to the relevant proportion of the **regular income**, referred to above, determined at the time of the most recent change of **anticipated bonus rate**.

- (d) The **anticipated bonus rate** in respect of 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 **anticipated bonus rate** in respect of any **second annuity** or **third annuity** can however be changed in accordance with this section, even if the payments of **second annuity** or **third annuity** "overlap" with the guarantee payments of the **first annuity**.
- (e) Where there is both a **second annuity** and a **third annuity**, the **anticipated bonus rate** for each can be changed independently of one-another.
- (f) We will give the **annuitant** details of the amount of the new **annuity** before he or she will become committed to the change, but we must retain complete discretion as to how we calculate the amount. The method we use to calculate this may change from time to time.
- (g) 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 report suggests that the **annuitant** is in significantly poorer health than we had originally assumed, we may change our calculations so as to assume a shorter life expectancy. The effect of a shorter life expectancy is taken into account in both valuing the remaining payments of the original **annuity** and setting the level of payments of the new **annuity**. A shorter or longer life expectancy could, in either case, possibly lead to a higher or lower **annuity**.

## 8.2 CHANGE TO PROTECTED RIGHTS ANTICIPATED BONUS RATE – SPECIAL PROVISION

The **protected rights anticipated bonus rate** may only be changed if the minimum income we can guarantee to be provided from the **annuity change date** by the part of the **annuity** that is **protected rights pension** (see section 7 of this Appendix) is at least equivalent to the initial level of income:

- provided from the **annuity start date** by the part of the **first annuity** that was **protected rights pension**, where the change to the **anticipated bonus rate** is in respect of the **first annuity**; or
- that would have been provided from the **annuity start date** (had the **second annuity** or **third annuity** started at the **annuity start date**) by the part of the **second annuity** or **third annuity** that was **protected rights pension**, where the change to the **anticipated bonus rate** is in respect of the **second annuity** or **third annuity**.

For example, if;

- the initial **protected rights anticipated bonus rate** is 0%;
- the initial level of income provided from the **annuity start date** by the part of the **annuity** that was **protected rights pension** is £5,000;
- the new **protected rights anticipated bonus rate** is 2%; and
- the minimum income we can guarantee to be provided from the **annuity change date** by the part of the **annuity** that is **protected rights pension** is £6,000;

the change is allowed. However, if;

- the new **protected rights anticipated bonus rate** is 4%; and
- the minimum income we can guarantee to be provided from the **annuity change date** by the part of the **annuity** that is **protected rights pension** is £4,000;

the change is not allowed.

# 9

## ANNUITY SWITCHING OPTION

### 9.1 GENERAL

Subject to section 9.2 of this Appendix, the **policyholder** or **annuitant** can elect to switch the **annuity** to one of the following non-profit bases at the **annuity change date**:

- a **level annuity** which will not decrease or increase;
- a **fixed increase annuity** increasing at a fixed rate of 3% per annum; or
- an **RPI-linked annuity**.

The following provisions apply to this option:

- (a) It will not be possible to switch back to a With-Profits basis at a later date.
- (b) The **first annuity** cannot be switched to a non-profit annuity whilst instalments of the **first annuity** are being paid during a **guarantee period** following the death of the **first annuitant**. Any **second annuity** or **third annuity** can however be switched to a non-profit annuity in accordance with this section, even if the payments of the **second annuity** or **third annuity** "overlap" with the guarantee payments of the **first annuity**.
- (c) Where there is both a **second annuity** and a **third annuity**, each can be switched to a non-profit annuity independently of one-another.
- (d) We will give the **annuitant** details of the amount of the new **annuity** before he or she will become committed to the change, but we must retain complete discretion as to how we calculate the amount. The method we use to calculate this may change from time to time.

- (e) 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 report suggests that the **annuitant** is in significantly poorer health than we had originally assumed, we may change our calculations so as to assume a shorter life expectancy. The effect of a shorter life expectancy is taken into account in both valuing the remaining payments of the original **annuity** and setting the level of payments of the new **annuity**. A shorter or longer life expectancy could, in either case, possibly lead to a higher or lower **annuity**.
- (f) Any level of minimum income guarantee that applies to the **With-Profits annuity** will not apply to the new non-profit annuity.
- (g) A Market Value Reduction may apply on a switch to a non-profit annuity.

### 9.2 SWITCH OF ANNUITY CONSISTING OF PART OR ALL PROTECTED RIGHTS PENSION – SPECIAL PROVISION

The **annuity** may only be switched if the level of income provided in respect of **protected rights pension** under the new non-profit annuity is at least equivalent to the initial level of income:

- provided from the **annuity start date** by the part of the **first annuity** that was **protected rights pension**, where the proposed switch to a non-profit annuity is in respect of the **first annuity**; or
- that would have been provided from the **annuity start date** (had the **second annuity** or **third annuity** started at the **annuity start date**) by the part of the **second annuity** or **third annuity** that was **protected rights pension**, where the proposed switch to a non-profit annuity is in respect of the **second annuity** or **third annuity**.

## 10

# EXAMPLE OF HOW WE WORK OUT WHAT THE NEW LEVEL OF THE ANNUITY WILL BE

The example below shows the calculation we apply to an **annuity** consisting of **non-protected rights pension** only.

If the **annuity** consists of **protected rights pension** only, we apply an identical calculation, but use the **protected rights anticipated bonus rate**.

If the **annuity** consists of both **non-protected rights pension** and **protected rights pension**, we apply an identical calculation separately to each of these parts using the levels of income and the **anticipated bonus rate** relevant to each part. The results of the two calculations are then added together to determine the new level of the **annuity**.

All figures, bonus rates and **anticipated bonus rates** shown are for example purposes only.

## FIRST STEP

We determine the **regular income** for the last year

Value of the **annuity** for the last year: £12,328.60

Value of the **additional income** for the last year: £271.32

We deduct the value of the **additional income** from the value of the **annuity**:

$£12,328.60 - £271.32 = £12,057.28$

## SECOND STEP

We reduce the **regular income** for the last year to allow for the **anticipated bonus rate**

Chosen anticipated bonus rate: 3.0%

We divide the **regular income** by the sum of 1 + the **chosen anticipated bonus rate**:

$£12,057.28 / (1 + 0.03) = £11,706.10$

## THIRD STEP

We increase the reduced **regular income** to allow for the new regular bonus rate

New regular bonus rate for this year: 2.75%

We multiply the reduced **regular income** by the sum of 1 + the new regular bonus rate:

$£11,706.10 \times (1 + 0.0275) = £12,028.02$

## FOURTH STEP

We determine the new **additional income** (if an additional bonus rate has been declared)

New additional bonus rate for this year: 4.25%

We multiply the new **regular income** by the new additional bonus rate:

$£12,028.02 \times 4.25\% = £511.19$

## FINAL STEP

We determine the new level of the **annuity**

We add the new **additional income** to the new **regular income**:

$£511.19 + £12,028.02 = £12,539.21$



# PRUDENTIAL

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