AEGON | Scottish Equitable

A certain future

Spotlight on annuities

Whether you're already retired, or about to retire, look on retirement as a beginning. An exciting new phase in life. After all, you could be retired for almost as long as you've been working. Which is great – as long as your retirement income keeps going for as long as you do.

An annuity gives you the reassurance of a guaranteed retirement income for as long as you live. You'll know exactly where you stand year in, year out. So you can plan ahead with certainty.

With you all the way

You can't predict the future, but with an annuity and our annuity expertise you'll have something you can rely on long term.

What is an annuity?

An annuity (or secured income) is the technical term for what most people think of as their 'pension', in other words the regular amounts of money paid to you in your retirement. You'll be guaranteed to get the agreed income for the rest of your life, no matter how long you live. So whether you're 10, 20, 30 or more years into your retirement, you'll have a regular income you can rely on to keep paying out.

You pay an insurance company, like us, a lump sum in exchange for this regular income for life. You can use the money you've saved up in your pension fund while you were working for this, after either taking any tax-free lump sum you're entitled to (usually up to a maximum of 25% of the value of your pension fund) or, if you'd prefer, leaving it in your fund to go towards your annuity.

You'll be guaranteed to get the agreed income for the rest of your life, no matter how long you live.

Flexible set-up

You can choose when you buy your annuity. Usually the earliest you can buy one is age 50 and the latest is by your 75th birthday. You don't even have to be retired to set one up – you can carry on working while receiving your annuity income if that suits you.

You also have various options when you come to set up your annuity, so you can make sure it's right for you. For instance you can go for a single-life annuity or joint-life one. Single life means we pay an income to you for your lifetime. With a joint-life plan we pay you an income as long as you live and after that an income to, say, your husband, wife or civil partner. There are also other options, for example protecting your income against the effects of inflation, and you can find details on all of these on page 08.

You also have what is known as the open market option. This is the flexibility to choose which company you want to take out your annuity with. You don't have to go with the company you've been saving your pension fund up with. So you can buy your annuity from us even if your pension plan is with another company.

Our annuities

We currently offer two annuity products: our Compulsory Purchase Annuity and our Immediate Vesting Personal Pension Annuity.

Compulsory Purchase Annuity (CPA)

This could be right for you if:

- you have a pension fund with another company you'd like to transfer
- you'll have at least £5,000 (maximum £2 million) left in your pension fund after your tax-free lump sum has been paid

You send us the balance of your pension fund after your current pension company has paid you any tax-free lump sum and we use this money to set up your CPA.

Immediate Vesting Personal Pension Annuity (IVPPA)

This could be right for you if:

- you have more than one pension fund, as you can combine them to get just one tax-free lump sum and one combined annuity payment
- you'll have at least £5,000 (maximum £2 million) in your pension fund once we've paid your tax-free lump sum

You transfer your whole pension fund to us, and we'll pay you any tax-free lump sum and set up your IVPPA.

Both products are what are known as conventional pension annuities, in that you can only buy them using the money from your pension fund. With both you also have the flexibility to add a wide range of annuity options (you can find details on page 08).

By market value AEGON is even bigger than companies like Cadbury's Schweppes, Nike and Volkswagen (source: FT Global 500, 31 March 2006).

Our annuity know-how

So why choose AEGON Scottish Equitable for your annuity?

We're financially strong

You need to know that the pension company that pays your annuity will be able to meet your payments as long as you need them. AEGON Scottish Equitable currently has an AA financial strength rating from independent ratings agency Standard & Poor's, which is one of the highest ratings available. And we're part of the AEGON Group, one of the world's largest listed life insurance and pension companies. In fact, by market value AEGON is even bigger than companies like Cadbury's Schweppes, Nike and Volkswagen (source: FT Global 500, 31 March 2006).

We're here for the long term

We've been a leading provider of pensions and investments in the UK since 1831 and have continued to adapt and grow with the times to remain one of the most significant insurance companies in the UK today. We also have the strength behind us of being part of the AEGON Group, one of the largest insurance companies in the world.

Thousands trust us to provide for their retirement

Over 100,000 people to date have chosen to save for their future with us. And around 18,000 people in the last 12 months chose us to provide their annuity.

We know what we're doing

We're one of the top three annuity providers and we've provided annuities for around 40 years. We currently make over £2.85 billion in annuity payments each year.

Experts in providing retirement income

We offer a whole range of retirement products in addition to annuities, including income drawdown, alternatively secured pensions and 5 for Life, from AEGON Scottish Equitable International, – an investment plan which offers people over 60 a guaranteed income for life.

Easy to do business with

You can contact our annuities team by phone or email, or you can deal with us through your financial adviser, if you prefer.

To find out more about our annuities:

- call us on 08456 015 273 or
- email us at annuities@aegon.co.uk

Why choose annuities?

Around 80% of people retiring choose an annuity to provide their income in retirement. Here's why.

Annuity advantages

- It pays a guaranteed income.
- The income is paid for as long as you live, rather than a set number of years, so it won't run out.
- There's no investment risk (unless you have an investment-linked annuity).
- It can provide an income for your partner too, if you die first.
- It can protect your income against the effects of inflation, as even a low level of inflation could greatly reduce your spending power over the years.

Such a reliable, long-term source of income can be used either as your main retirement finance or as the cornerstone of a wider retirement package.

The price of a longer life

People are now, on average, living longer. According to the Association of British Insurers, the average 65-year-old man will live until around 84 and the average 65-year-old woman to 87. And, of course, some people will live longer than that – which means your money needs to last longer too.

So if you're planning to live to a ripe old age, you could be onto a winner with an annuity as you'd actually receive more in income from it than you'd originally paid in. In effect, you're paying for the insurance company to take on the risk of you living longer than the average person.

The longer you live, the better an annuity will work for you.

The income is paid for as long as you live, so it won't run out.

Take, for example, Mr Roberts. He retires at 60 with a pension fund of £75,493. We set up an annuity for him and agree to pay him £5,000 each year (based on our rates at 8 May 2007). We guarantee to pay him this amount whether he lives to 85, 95, or even to 105. See how much total income he'll receive in his retirement:

Age at death	Years in retirement	Total income
76	16 years at £5,000 each year =	£80,000
85	25 years at £5,000 each year =	£125,000
105	45 years at £5,000 each year =	£225,000

So, even if he dies at age 76, he'll have received more income than the £75,493 he originally invested.

The longer you live, the better an annuity will work for you. Please note this is just an illustration, the income you'll get is only guaranteed when your annuity starts.

Not right for everyone

However, you have to remember that with an annuity:

- you can't change it once it's set up
- you can't get your money back at a later date
- if the annuity is set up on your life only then it'll stop on your death

And that might not suit you. Everyone's circumstances are different and it's important you take time to choose the retirement income option that's right for you. If you haven't talked to one already, a financial adviser can help you decide. They can look at all your finances with you, covering areas such as savings and ISAs as well as your pensions.

What income will you get?

So what affects how much you get with your annuity?

What happens to your money?

With an annuity you pay a lump sum to an insurance company, like us, and we work out how much we need to pay you to pay back the capital and the interest over your expected lifetime.

In effect what happens is that all the money we get given to set up annuities we put in the same ‘pot’. We know how much we need to pay out each year in income, so we invest the annuity pot in the types of investments we know will meet that. We’ve also calculated that some people will live longer and so will need income for longer than others.

When people don’t live as long as we’ve calculated and so won’t need the income for as long, we’ve money left over. This money goes back into the ‘pot’ to fund the income for people who live longer than we calculated.

Where is the money invested?

An annuity is also known as secured income because it’s the insurance company and not you that takes on the risk of providing the income.

To do this we invest the money in fixed interest securities, which are low risk. We look at the annuity payments we need to make in the future and choose a combination of fixed interest securities that will pay the right amounts on the right date, so we can always meet our annuity commitments.

Annuity rates

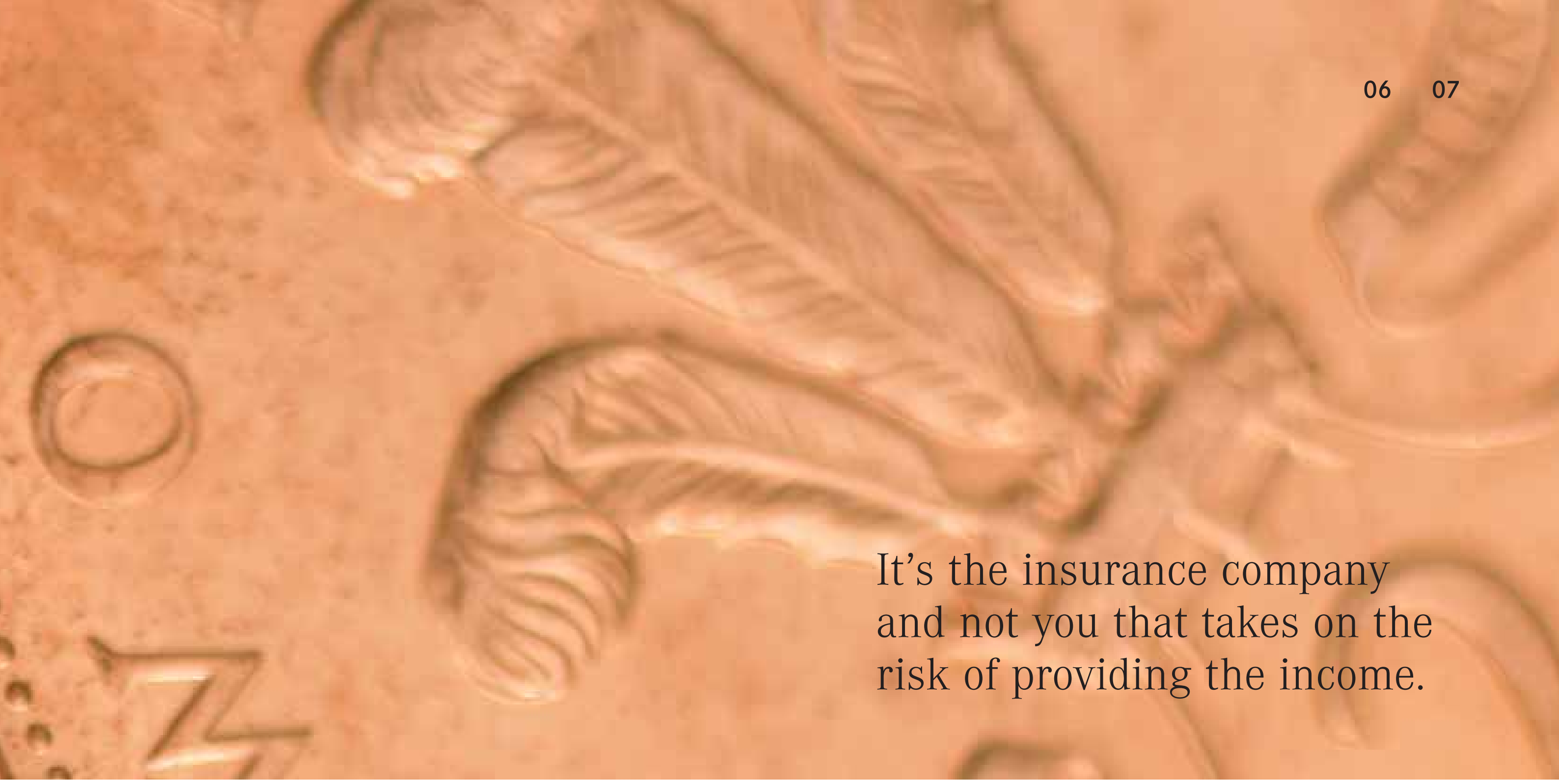
The amount of your annuity payment will depend on the annuity rates applicable at the time you retire and set up your annuity. The annuity rate you’ll get will be individual to you and will depend on various factors including how long people are expected to live for, fixed interest bond yields, how much you’re investing, your age and your health. It’ll also depend on whether you’re male or female (on average a woman is expected to live around three years longer than a man of the same age).

As people are now expected to live for longer and long-term interest rates are lower, annuities have to pay out for longer. This means annuity rates are now lower than they’ve been in the past, although it’s worth remembering they’re still excellent value for money as they’re guaranteed to last as long as you do.

Different insurance companies may offer different annuity rates. This is because they make slightly different assumptions about how long people might live and they may make different decisions about where to invest their annuity money. And as everyone’s circumstances are different, the company giving you the best rate might not necessarily be the top choice for someone else.

So it’s worth shopping around. A recent study showed that the rates on offer from all the different annuity companies can vary by as much as 30% (source: the Pensions Institute Annuities & Accessibility report March 2006). To put that in context, if the top company was prepared to pay you £5,000 each year, the bottom company may only offer you £3,500. Think what a difference that £1,500 could make to you.

You can contact insurance companies direct for a quote or your financial adviser can do this for you. You can also check out the Financial Services Authority’s comparative annuity rates table, which you can find on its website at www.fsa.gov.uk/tables.

It's the insurance company and not you that takes on the risk of providing the income.

Annuities and tax

Annuity payments are treated as earned income and so are taxed at your standard rate under the PAYE system. We pay your income to you net of tax, as we pay the tax direct to the Revenue on your behalf. To begin with we'll take off basic rate tax until we receive confirmation of your tax rate.

Annuity options

The way you set your annuity up and the options you add will all affect how much you get paid.

You set up your annuity on a single-life or joint-life basis (see table below) and then add any extra options you want.

	What it does	How to tailor it	Things to think about
Single life	■ Pays you a guaranteed income for the rest of your life. ■ Payments will stop when you die.	You can choose to add any of the options detailed below.	■ It could pay you a higher income than a joint-life annuity but the income won't continue to your partner, if you have one, after your death. ■ If you have no partner or your partner has a good pension of their own, you may be happy with a single-life annuity.
Joint life (giving your partner a pension after your death)	■ Provides guaranteed annuity payments to you for the rest of your life. ■ Your husband, wife or civil partner will continue to receive an income after your death. This income will last the rest of their life.	You can choose how much your partner's pension will be: ■ exactly the same as the pension paid to you ■ two-thirds of the pension paid to you or ■ half of the pension paid to you	■ You'll receive a lower income than a single-life annuity, but your partner will be provided for. ■ The higher the level of income you choose for your husband, wife or civil partner, the lower amount of income you'll get.

The basic annuity is single-life level annuity. You can add any of the following options to tailor your annuity whether it's on a single- or joint-life basis.

Option	What it does	How to tailor it	Things to think about
Level annuity	Pays you a set income which is fixed when you set up your policy.	You can add a guarantee period and choose how often you receive payments.	■ It pays you a higher income than an escalating annuity. ■ Inflation in the future could reduce the buying power of your annuity.
Escalation	Protects your pension against inflation, so that you'll still be able to afford the same things in five years' time as you can today.	You can choose: ■ any percentage from 0 to 5% ■ for your pension to increase at the same rate as Limited Price Indexation (LPI)*	■ Your initial income will be lower than a level annuity but will increase each year. ■ It may take a number of years before the total income you receive matches that paid out with a level annuity.
Guarantee period	Guarantees to pay your pension for a minimum number of years. These payments will continue to your estate if you die before the guarantee period is over.	You can choose a guarantee period of: ■ 5 years, or ■ 10 years	■ Your initial income will be lower than that from an annuity with no guarantee period. ■ Generally it's not an expensive option to add and can provide some protection for your family.
How often you receive payments	You can choose how regularly you receive payments to match your lifestyle, any other income you may have or to meet regular bill payments.	You can choose to have your income paid every: ■ month ■ quarter ■ six months ■ year This will be from your annuity's first payment. So, for example, if you opt for monthly payments and your first payment is on 10 February, the next will be on 10 March.	■ You can choose whatever best suits your lifestyle.
When you receive payments	You can also choose when you receive payments.	■ If you choose 'in advance', you'll receive your payments at the **start** of each, say, month (or whatever frequency you choose). ■ If you choose 'in arrears', you'll receive your payments at the **end** of each, say, month.	In advance ■ Your income could be less than if you chose the same frequency but paid in arrears. In arrears ■ Your income could be higher than if you chose the same frequency paid in advance. ■ You need to make sure you won't go short before your income starts. ■ In most cases choosing yearly in arrears will pay the highest income.

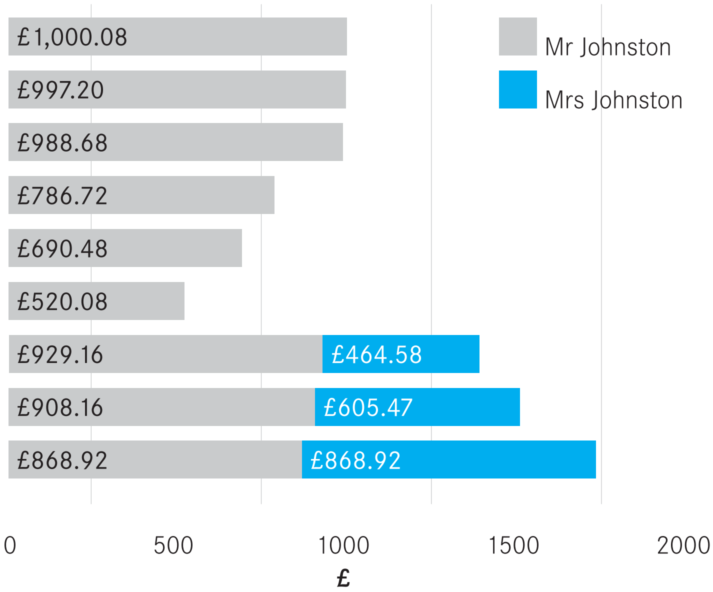
*Limited Price Indexation is a rate that you can use to increase annuity payments each year. However, it only applies to pensions built up from 6 April 1997. Pensions built up between 6 April 1997 and 5 April 2005 must increase each year by the cost of living (the Retail Prices Index) or 5%, whichever is lower. Pensions built up after 5 April 2005 only have to increase each year by 2.5% or in line with the Retail Prices Index if this is less.

It's worth talking to a financial adviser about your options to make sure that you get the annuity that best suits you. Although these are all valuable benefits, they'll reduce the initial income that you receive – as the example below shows.

Our example is Mr Johnston, a 60-year-old, who has a pension fund of £16,742, which he wants to use to buy an annuity. With that amount, we can give him a level annuity of £1,000.08 a year for as long as he lives (based on our annuity rates at 8 May 2007). But he's interested to know what effect adding some of the annuity options would have on this amount.

The table below shows how adding different options would reduce the income payable to Mr Johnston (and to his 59-year-old wife if he takes out a joint-life annuity). All figures shown are based on our annuity rates at 8 May 2007 and are for illustration purposes only.

Guarantee period (years)	Escalation[1] (percentage)	Joint-life annuity (percentage)
–	–	–
5	–	–
10	–	–
–	2.0%	–
–	3.0%	–
–	5.0%	–
–	–	50%
–	–	66.67%
–	–	100%



[1] You can choose this percentage. We allow up to 5% yearly.

The actual annuity you'd get will differ from this as it's based on your age, sex and how much you have to invest at the time you retire. If you'd like a quote from us taking into account any of the above options just ring us on 08456 015 273 or email us at annuities@aegon.co.uk.

Delaying your annuity

If you defer retiring, you could also defer setting up your annuity. But this wouldn't necessarily give you more income. Although you'd get a higher yearly income if you retired later – because the same pension fund doesn't need to provide an income for as long – you could miss out on valuable income.

For example, if you decided to defer retirement from 60 to 62, you'd have missed out on regular income over those two years. It could take until age 80 before your accumulated income amounts to more than the total income you would have accumulated by starting your annuity at 60.

Lifetime allowance

The lifetime allowance for the 2007/08 tax year is £1.6 million. If all your pensions, or any benefits you take from them, add up to more than this, you may have to pay tax on the amount above the lifetime allowance.

Most people won't go above the lifetime allowance. But if you think you might or you want more information on whether the lifetime allowance will affect you, talk to your financial adviser or get in touch with the Revenue.

You'll need to confirm to us that you're not going over your lifetime allowance before we can make any annuity payments to you. This information is based on our understanding of current taxation law and Revenue practice which may change.

Annuity rates can vary by as much as 30% between companies.

Next steps

If you're interested in an annuity with us, here's what to do next.

You should already have an annuity quote from us. If not, or if you want to add any options to your annuity, for example a partner's pension, escalation or a guarantee period, just let us know and we'll put together a quote for you. Just call us on 08456 015 273 or email us at annuities@aegon.co.uk.

Document checklist

When we set up your annuity we'll need to see the following documents, so you may want to make sure they're to hand. We'll need the originals of any proof documents, such as birth certificates, but will return these to you as soon as we can. You'll need:

- proof of age/identity – for example birth certificate, photo driving licence
- proof of marriage/civil partnership, if you're applying for a joint-life annuity
- details of your current pension plan, for example which company it's with, policy number, current value if known, and amount of protected rights (you may have protected rights money in your pension if you were ever contracted out of the state pension scheme)

Taking out an annuity with us

Once you've a quote you're happy with, you'll need to complete the application form we send with your quote and you'll also need to send us proof of your age/identity and of your marriage or civil partnership. If you want us to set up a pension for your common-law husband or wife, you'll need to send us proof of their financial dependency on you. If you've a financial adviser, they'll be able to help you with your application.

Once we receive your application and copies of the evidence we need, you can sit back and relax as we do everything else. We'll contact your previous company for the information we need from them and then chase them for it on a regular basis so that we can get your annuity set up as soon as possible. The annuity rate we quote you is usually guaranteed for 14 days and we need to receive all the necessary documentation and funds in that time for the rate to apply. If it takes longer than that, then the applicable rate may change.

Once we've got everything we need, we'll confirm the final details to you of how much we received from your pension company and how much your annuity will be. We'll then start making payments into your account so you can get on with your retirement.

Ongoing commitment

Like annuities, we're with you all the way. If you have any questions about your annuity at any time, you can call our annuity helpdesk on 08456 015 273.

We'll send you a P60 at the end of each tax year so that you know how much tax you've paid. The Revenue may need to see this if you complete a tax return. You should keep all of these P60s somewhere safe as the Revenue might ask to see them if your circumstances change.

From time to time – at least every five years – we'll ask you to confirm that all the details we have for you are still correct. This is to make sure that you continue to receive your income on time.

We hope you've found this guide to annuities useful. If you have any questions about the annuities that we offer or about a quote you've got from us then you can contact us on:

Telephone: 08456 015 273
Email: annuities@aegon.co.uk

Alternatively, get in touch with your financial adviser for advice on annuities and how they might benefit your retirement planning.

Find out more

Organisations you might find useful to contact when planning your retirement finances.

To find out about retirement options

The Financial Services Authority
The Consumer Contact Centre
The Financial Services Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS

Helpline: 0845 606 1234
Textphone: 0845 730 0104
Email: consumerhelp@fsa.gov.uk
Website: www.moneymadeclear.fsa.gov.uk
Comparative tables: www.fsa.gov.uk/tables

The Financial Services Authority (FSA) produces free leaflets on all aspects of financial planning. You may find the following ones particularly useful as you approach retirement:

- FSA guide to pensions 2: Reviewing your pensions
- FSA guide to pensions 3: Annuities and other retirement options
- Retiring soon – what you need to do about your pensions
- FSA guide to financial advice

You can order these from its Consumer helpline (number shown above), using the automated Leafletline on 0845 456 1555 or download them from its website.

To find a financial adviser

IFA promotions
Telephone: 0800 085 3250
Website: www.unbiased.co.uk

For pension and annuity enquiries

The Pensions Advisory Service
Telephone: 0845 601 2923
Website: www.opas.org.uk

To trace any lost pensions

Pension Tracing Service
The Pension Service
Tyneview Park
Whitley Road
Newcastle upon Tyne
NE98 1BA

Telephone: 0845 600 2537
Textphone: 0845 300 0169
Website: www.thepensionservice.gov.uk

To get an estimate of your state pension

Future Pension Centre
The Pension Service
Tyneview Park
Whitley Road
Newcastle upon Tyne
NE98 1BA

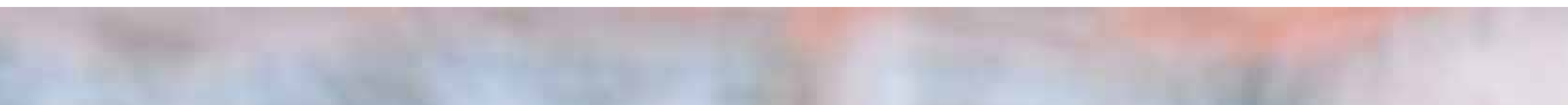
Telephone: 0845 300 0168
Textphone: 0845 300 0169
Website: www.thepensionservice.gov.uk

For information on tax matters

The Revenue
Website: www.hmrc.gov.uk

To find out what we offer

AEGON Scottish Equitable
Annuities helpdesk:
Telephone: 08456 015 273
Email: annuities@aegon.co.uk
Website: www.aegonse.co.uk/consumer/annuities



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