

## Statutory Illustration Explanatory Notes

Your illustration takes account of new rules which our regulator, the Financial Services Authority, and the Government have introduced. The following notes explain the new rules and how they affect your illustration. **Please read them carefully.**

### Allowing For Inflation

Until now, providers have only illustrated future pensions on a monetary basis. Such illustrations did not allow for the possible effects of inflation, so did not give you an idea of how much you were likely to be able to 'buy' with your pension at retirement.

New rules require all providers to give an illustration in real terms, known as a "today's prices" illustration. These allow for inflation to give a more realistic view of the future worth of your retirement income.

To highlight the past effects of inflation, we can consider the changes in the price of milk. In 1975 a pint of pasteurised milk cost 7p but by the year 2000 this had increased to 34p. This is a total increase of 385%, so milk inflation over the 25 years in question averaged 6.5% per annum.

Therefore, for example, if the same increases for milk applied to all goods and a pensioner needed £700 to live on in 1975, an identical pensioner in 2000 would need to receive £3,400.

As you can see, when planning for the future it is important not to forget inflation. Of course, inflation could eat away at the income you receive from your pension when you retire. To counteract this, and so maintain the purchasing power of your pension, you would need the income to increase each year in line with inflation.

Inflation is usually measured using the Retail Prices Index. Our "today's prices" illustration assumes your pension income will go up each year in line with the increases in that index.

"Today's prices" illustrations will help you decide if your pension arrangements will provide you with your desired standard of living in retirement. We will send you a new "today's prices" illustration each year with your annual statement.

**N.B. One result of your illustration allowing for inflation, both before and after retirement, is that your "today's prices" illustrations may look much lower than previous years' illustrations.**

### Changes to the Pension Payable

At retirement, your fund will be converted into pension income. The illustrations use estimated annuity rates for this conversion which reflect:

- That people are tending to live longer, and this trend is likely to continue.
- That interest rates will still be relatively low when you retire.
- An annual pension increase in line with the Retail Prices Index.

This year, the specified interest rate assumption is significantly lower than used in previous years. **The combined effect of the new assumptions is a significantly lower but more realistic estimate of your pension when you retire.**

### Living Longer

People today are, on average, living longer than ever. For example, a man retiring in 2004 at age 65 could reasonably expect to live for around 16 years. A 65 year old retiring in 1984, however, could only have expected to live for around 13 years.

It is likely that average life spans will continue to grow and the new illustration rules allow for this increasing longevity.

Therefore, a pension fund will be expected to provide retirement income over a longer period than it has to today. As a result, the amount it can provide each year is likely to be lower than it could provide today. This will be reflected in all of your illustrations.

### Lower Investment Returns

As your pension income will be expected to be paid over a number of years the investments which support it would be expected to be similarly long-term. The amount of initial pension income will be based on the investment return expected to be made at the time of your retirement. However, as your expected retirement is sometime in the future the investment return is unknown. Therefore we are required by our Regulator to assume an investment return based on specified long-term investments on a specified day each year.

This year the specified investment return is significantly lower than that used in previous years. **This has also reduced the pension amounts shown on the accompanying illustration from the amounts shown on previous illustrations.** This is an assumed investment return and may be very different from that applicable at your retirement date.

### Further Information

The Financial Services Authority (FSA) has produced some leaflets which may help your pension planning. These are available, free of charge, from their consumer helpline on 0845 606 1234 or their website [www.fsa.gov.uk/consumer](http://www.fsa.gov.uk/consumer). The Occupational pensions regulatory authority (Opra) regulates work-based pensions and information can be obtained from their helpdesk on 01273 627600.

For general pension enquiries you can call the Pension Advisory Service (OPAS) on 0845 6012923 or view their website [www.opas.org.uk](http://www.opas.org.uk).

# Questions and Answers

## Q1. Why does this year's statement contain additional pages to earlier ones?

The Government has introduced new rules that mean we must provide an illustration in "today's prices" as part of the annual statement.

## Q2. Then why is the monetary one shown?

We thought it would be useful to demonstrate both the old and the new to show the impact of inflation.

## Q3. Why is the additional illustration for my policy greater than the normal illustration?

This can happen particularly for DSS policies and some other policies which accept single contributions. The normal illustration for these types of policy doesn't take into account any future National Insurance Rebates we are likely to receive from DSS, or any future single contributions you may pay us. The additional illustration does take account of likely future National Insurance Rebates if you are still contracted out of the State Second Pension Scheme with us and the Rebates are based on an estimated salary derived from past Rebates. If you have paid us single contributions in the last three policy years, then we assume under the new rules that you will pay us single contributions in future years as well.

## Q4. Why does the additional illustration look so different from those I have received before?

The illustration looks very different mainly because it has allowed for the possible effects of inflation. The pension shown gives you an indication of the possible purchasing power that it may provide when you retire. It is known as a real terms or "today's prices" illustration.

**Because inflation has been allowed for, the illustrated figures may be much smaller than those you have seen before.**

## Q5. What assumptions have been used for the "today's prices" (real terms) illustration?

Guidance on the assumptions to be used has been provided by our regulator for all pension providers. This guidance may change in the future, but the key assumptions are:

- Pension funds will grow at 5% per annum prior to retirement before charges. Because there is only one growth rate, only one "today's prices" illustration is given.
- Inflation before retirement will be 2.5% per annum.
- Your pension will increase each year after you retire in line with inflation.
- Pension funds will be converted to income using rates which are consistent with investment returns available in early 2004.

## Q6. Is the annual growth rate assumption reasonable?

Our regulator has set a maximum growth rate of 7% per annum. However, where it is felt this rate may overstate the potential of a particular investment a lower growth rate must be used. We use a growth rate below the allowable maximum to more closely reflect the potential returns from our with profits funds. If you are investing predominantly in unit linked funds, this illustration may understate the investment potential of your contract.

## Q7. Some of these assumptions used do not match my circumstances, why is this?

The assumptions made are prescribed in law and we are obliged to use them. Subject to any legal restrictions which may then be in place, you will be able to choose a type of pension which fits your circumstances when you retire.

## Q8. Why has the new illustration basis been introduced?

It has been introduced by the Government. The aim is to give you as realistic a view as possible of the purchasing power your pension may provide at retirement.

This will help you consider if your existing pensions provision is sufficient to provide your desired standard of living in retirement.

## Q9. Why is the assumed pension basis different between my normal illustration and the additional Statutory illustration?

The normal illustration will assume you are married for DSS and Protected Rights Transfer policies, and will assume you are single for all other policy types. However, for the new additional Statutory illustration, we assume the current marital status, held on our records. Also, for the additional Statutory illustration, we must assume that the pension will increase in line with the Retail Prices Index, for all policy types.

## contact us

NPI  
The Pearl Centre  
Lynch Wood  
Peterborough  
PE2 6FY

**internet** [www.npi.co.uk/npimailing](http://www.npi.co.uk/npimailing)

UKLS Financial Services Ltd No. 3715118, NPI Ltd No. 3725037, National Provident Life Ltd No. 3641947, NPI Investment Managers Ltd No. 0962757, NPI Portfolio Managers Ltd No. 2238069, London Life Ltd No. 1179800, London Life Linked Assurances Ltd No. 1396188, Pearl Assurance plc No. 1419, Pearl Assurance (Unit Funds) Ltd No. 1027138, Pearl Assurance (Unit Linked Pensions) Ltd No. 1122485, Pearl Unit Trusts Ltd No. 958262, Pearl ISA Ltd No. 3597973 are the companies that make up the HHG Life Services Marketing Group and are authorised and regulated by the Financial Services Authority for pensions, investments and life assurance. Pearl GI Ltd No. 2587380 is a member of the General Insurance Standards Council. UKLS Financial Services Ltd is registered with the Mortgage Board. All companies are registered in England at The Pearl Centre, Lynch Wood, Peterborough PE2 6FY. Tel. 01733 470470. We may record or monitor telephone calls to improve service and protect customers.