Growth Annuity Portfolio (GAP) at a Glance

What is an annuity?

Annuity	One of the options when taking pension benefits is to use the pension fund to purchase an annuity. This is essentially an exchange of the pension fund for an income throughout the client's lifetime and their spouse/dependant if this option is chosen at commencement. Once an annuity is purchased, it cannot be cancelled, transferred or commuted to a lump sum (although there are some exceptions for commutation). There are two types of annuity; conventional and unit linked.
Conventional annuity	The income level is set at outset and does not vary in payment amount (unless escalation has been added so the payment amount increases by a fixed percentage each year).
Unit linked annuity	The annuity is notionally linked to investment funds and the payment amount varies depending on the performance of the investment funds.

GAP is a unit linked annuity

Notional units

Our Actuaries calculated the initial amount of annuity which could be bought with the available purchase price using the annuity rates at the time of purchase. The client selected the insured fund(s) they wished to link to. The actuaries took the price of the insured fund(s) at the start date of the contract and used this to convert the amount of pension into an equivalent number of units.

An example of the calculation is given below.

Annual pension	£5,000
Unit price of chosen insured fund	£1.50
Notional units to calculate payment	£5,000 £1.50 = 3333.33 notional units

The annuity is then expressed as a number of units in the chosen fund(s) and these are used to calculate the annuity payments.

IMPORTANT: All units are notional and do not have a value, they are purely shown on MIDAS for the calculation of the payment amount.

Payment calculation

Payments are calculated using the unit prices 10 working days prior to the end of the month preceding the month in which the payment is due.

This is an example of how payments are calculated:

Payment Frequency	Payment Calculation	Payment Amount
Month 1	3333.33 units x unit price £1.50 = £5,000.00 / 12	£416.67
Month 2	3333.33 units x unit price £1.40 = £4,666.66 / 12	£388.89
Month 3	3333.33 units x unit price £1.53 = £5,099.99 / 12	£425.00

Anticipated Growth Option

At commencement, clients could anticipate how much investment growth they would get on their chosen funds and start with a higher payment but then a % of the units will be deducted each year. For example, if the client thought investment growth will be 3%, their units will reduce by 3% each year.

Fund switch

Clients can switch funds at any time and hold 10 pinnacle funds. The GAP switch form needs to be used as this has notional unit wording and manual output sent referring to notional units and value.

Conventional annuity

GAP clients can convert to a conventional annuity at any time. Once converted, they cannot switch back. The conventional annuity will mirror the GAP annuity and be on the same terms e.g. spouse/dependant benefit, escalation etc. This option is only available with Sanlam and an annuity cannot be purchased elsewhere.

Admin process

1) Client calls for conventional annuity quote. Pass GAP details to Actuarial for quote. Letter sent to client with quote and GAP switch form.
2) GAP switch form received with part 3 ticked giving authorisation to convert.
3) Data edit units to zero on GAP and expire. Set up new annuity.
4) Send client confirmation and endorsement.

All letters/procedures held u:administration letters directory/pensions/Growth Annuity Portfolio