

Everyone is different

Case Studies



For adviser use only

mgmadvantage
DESIGNS FOR RETIREMENT

Turning pension

savings into an income for life

Important choices

When people retire, they need to make sure their pension savings can provide them with an income for the rest of their life.

In return for some or all of their pension savings, an annuity provider will agree to pay them an income for the rest of their life.

Your clients don't have to buy their annuity from the same company they have saved with. They can buy it from another company if they want to and they are highly likely to get a better offer, so it's important to shop around before buying.

Annuity Choices

One of the most common products on the market is called a level conventional annuity. This provides a fixed income that stays the same for the rest of your client's life. For example, if the pension fund is worth £100,000, your client might be offered a fixed income of £6,000 a year. But, you have to consider what that £6,000 will buy in 15 or 20 years time.

Your clients can buy a conventional annuity that increases each year to help beat the effects of inflation but the starting income will be significantly lower to pay for this feature.

Designed to suit a range of clients

The Flexible Income Annuity is designed to give customers choice and control over their retirement income at different stages of their retirement years.

Your client can choose from an income range that will be in the region of between 50% and 120% of the income that would be available with a level conventional annuity purchased with the same initial investment.

If they qualify for enhanced terms, they will be able to choose from the same income range available at the enhanced rate.

There are seven investment funds to choose from provided by world-class investment managers.

One of the best ways to see how the Flexible Income Annuity could work for your client is by using our online calculator which you can find on our website at mgmadviser.com.

We suggest you and your client enter a few different scenarios to see which options will deliver the right income level for them.

The figures provided by MGM Advantage in this brochure are for illustration purposes only and were correct as at 10 July 2010.



Amanda

Pension pot of £70,000

Amanda, 63, has a pension pot of £70,000 and she plans to carry on working part-time for the next five years.

She has £10,000 outstanding on her mortgage and would like to buy a new car before she stops working completely. She is also planning to start her full retirement by taking an extended holiday with her daughter who lives in Australia.

So, Amanda takes her full 25% tax free cash lump sum of £17,500 before investing the remaining £52,500 in her MGM Advantage Flexible Income Annuity.

Amanda's top priority is providing an income that doesn't get totally eroded by inflation over her retirement.

She decides to take the minimum starting income available which is equal to 50% of a level conventional annuity. This will leave more of her funds invested with the potential to grow.

Amanda would like to leave her hard saved pension to her daughter if she dies before she is 75, so she chooses the 100% Value Protection option.

She wants to keep her costs to a minimum and this is one of her reasons for choosing the passively managed fund option. She hopes that her strategy will provide her with an income that will increase in line with inflation.



Size of Amanda's Pension Pot	£70,000
Tax free cash	£17,500
Initial investment after tax free cash has been taken	£52,500
Investment funds chosen	MGM Cautious Passive Fund (100%)
Value Protection If Amanda dies before the age of 75, 100% of her initial investment, less the income taken, will go to her Estate and she can leave it to her daughter in her Will. The Value Protection sum is taxable.	100% Value Protection benefit To age 75
Minimum starting income (50% of level conventional annuity) This is also equal to the Minimum Income Guarantee which is the lowest amount Amanda is guaranteed to receive for the rest of her life.	£1,488 per year
100% of level conventional annuity income	£2,977 per year
Maximum starting income (120% of level conventional annuity)	£3,572 per year
Amanda's chosen starting income Amanda will receive this amount each year until her five year review (unless she decides to change her income level)	£1,488 per year
Required Fund Performance This is the amount of investment growth needed to sustain Amanda's chosen income level.	0.38% per year

To see how this could look over a period of time, try our online calculator at mgmadviser.com.

Barry

Pension pot of £200,000

Barry is retiring at 65 and he wants to take as much income as possible at the start of his policy as he has income from other sources to rely on later into his retirement.

Barry has a pension pot of £200,000 and he decides to take the full amount of tax free cash available and use some of this to clear his mortgage and update the family home.

He chooses the maximum starting income option which is 20% more than he'd get from a level conventional annuity. Barry accepts that this gives less of his funds potential for growth but he is comfortable with this because of the income he knows he can rely on from other sources.

Barry is married to Louise and wants to make sure his wife is cared for financially when he dies. Part of his strategy to achieve this is to take the Joint Life option and he chooses 50% for Louise. This means that, if Barry dies first, his fund will be valued at the date of notification of his death and 50% of that value will be available for Louise. She can continue to invest her portion of the fund and to take the income amount she chooses within the minimum and maximum amounts. 50% of Barry's minimum income guarantee (MIG) will apply to Louise.

Alternatively, she can choose the fixed income option and will receive the calculated fixed income for the rest of her life. This fixed income will not be lower than her MIG.

Barry has held personal investments for years and he has a pretty good understanding of how the markets work. He is a fairly adventurous investor and he decides to split his investments between the MGM Jupiter Merlin Growth Portfolio (adventurous) and the MGM Newton Balanced Fund.

This gives a Required Fund Performance of 6.25% to sustain Barry's income at the level he has chosen. Barry accepts that if the actual fund performance is not the same or higher than his required fund performance, he will need to reduce his income level.



Size of Barry's Pension Pot	£200,000
Tax free cash	£50,000
Initial investment after tax free cash has been taken	£150,000
Investment funds chosen	MGM Jupiter Merlin Growth Portfolio (60%) MGM Newton Balanced Fund (40%)
Joint Life Amount Barry's wife will receive if he dies before her	50% of Barry's fund (valued at date of notification)
Minimum starting income (50% of level conventional annuity) This is also equal to the Minimum Income Guarantee which is the lowest amount Barry is guaranteed to receive for the rest of his life.	£4,382 per year
100% of level conventional annuity income	£8,763 per year
Maximum starting income (120% of level conventional annuity)	£10,516 per year
Barry's chosen starting income Barry will receive this amount each year until his five year review (unless he decides to change his income level)	£10,516 per year
Required Fund Performance	6.25% per year

To see how this could look over a period of time, try our online calculator at mgmadviser.com.

Charles

Pension pot of £50,000

Charles is 61, married to Donna and has two children at university who still live with them during the holidays.

Charles has a private pension scheme which he took out some years ago when he was self-employed and is now valued at £50,000. He takes the full amount of tax free cash available.

Charles wants to retire now as he has diabetes and he wants to take the maximum starting income now and benefit from enhanced rates.

Once the kids have finally left home, Charles and his wife Donna plan to sell their five bedroom Surrey home and buy a two bedroom flat on the South Coast.

Charles chooses 100% Joint Life benefits to ensure his wife Donna will continue to receive an income if he dies before her.

Charles needs a Required Fund Performance of 6.66% to sustain his chosen maximum level of income. He accepts that taking the maximum income available at the start will leave less of his fund invested with the potential to grow.

This does not concern either Charles or Donna as they have equity in their home that they plan to release in later years.



Size of Charles's Pension Pot	£50,000
Tax free cash	£12,500
Initial investment after tax free cash has been taken	£37,500
Investment funds chosen	MGM Newton Balanced Fund (100%)
Joint Life Charles chooses 100% Joint Life benefits to ensure his wife Donna will continue to receive an income if he dies before her.	100%
Minimum starting income (50% of enhanced level annuity) This is also equal to the Minimum Income Guarantee which is the lowest amount Charles is guaranteed to receive for the rest of his life.	£1,080 per year
100% of enhanced level annuity income	£2,160 per year
Maximum starting income (120% of enhanced level annuity)	£2,593 per year
Charles's chosen starting income Charles will receive this amount each year until his five year review (unless he decides to change his income level)	£2,593 per year
Required Fund Performance	6.66% per year

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Diane

Pension pot of £30,000

Diane is 65 and works part-time at her local school.

She wants to carry on working for a few more years and wants the same income as she'd get from a level conventional annuity.

Her husband John has already retired and receives £10,000 per year from his annuity and they both now receive the State Pension. The income from their State Pensions and John's pension is enough to cover their household expenses and entertainment costs. Diane's income provides any extras and savings. Diane intends to put her tax free cash into an ISA.

Diane didn't work for 20 years when she had her children and her pension pot is £30,000. If John dies before her, she will receive the remaining funds from his pension.

As they are comfortable now, her plan is to allow her pension pot to grow in order to provide a higher income in later years. Any extra income she gets now will go into her ISA savings.



Size of Diane's Pension Pot	£30,000
Tax free cash	£7,500
Initial investment after tax free cash has been taken	£22,500
Investment funds chosen	MGM Newton Balanced Fund (30%) MGM Balanced Passive Fund (50%) MGM Cautious Passive Fund (20%)
Benefits for Diane's spouse Diane chooses not to provide benefits for her husband if she dies before him	n/a
Minimum starting income (50% of level conventional annuity) This is also equal to the Minimum Income Guarantee which is the lowest amount Diane is guaranteed to receive for the rest of her life.	£691 per year
100% of level conventional annuity income	£1,381 per year
Maximum starting income (120% of level conventional annuity)	£1,658 per year
Diane's chosen starting income Diane will receive this amount each year until her five year review (unless she decides to change her income level)	£1,381 per year
Required Fund Performance	4.77% per year

To see how this could look over a period of time, try our online calculator at mgmadviser.com.

Eric

Pension pot of £400,000

Eric is 65 and about to retire from the company he has been running for 30 years.

He's been married to Joan for 40 years and the couple have two grown up children with their own families.

Eric's company has been very successful and he's been able to save £400,000 into his pension pot. He has no mortgage but he'd like to buy a small apartment in Spain as part of his retirement plans.

He takes the full amount of tax free cash to help with the cost of the new property.

He has been diagnosed with Parkinson's disease and qualifies for enhanced terms which will give him a higher starting income than he could get from a standard conventional annuity.

It's really important for Eric to provide for Joan financially as she has no pension of her own and will be relying on the State Pension when she reaches 60 next year.

Eric is happy to take the minimum income level available for the first five years as this will provide more than enough income for him and his wife.

For Eric, ensuring Joan has regular income to rely on if he dies is the most important thing and he is only looking to make sure his annuity keeps up with inflation. He chooses the minimum starting income and selects his portfolio from the active and passive funds available.



Size of Eric's pension pot	£400,000
Tax free cash	£100,000
Initial investment after tax free cash has been taken	£300,000
Investment funds chosen	MGM Jupiter Merlin Growth Portfolio (10%) MGM Newton Balanced Fund (30%) MGM Balanced Passive Fund (30%) MGM JP Morgan Cautious Total Return Fund (10%) MGM Cautious Passive Fund (20%)
Eric takes the policy out on a 100% Joint Life basis Amount Eric's wife will receive if he dies before her	100% - Joint Life
Minimum starting income (50% of enhanced level annuity) This is also equal to the Minimum Income Guarantee which is the lowest amount Eric is guaranteed to receive for the rest of his life.	£8,140 per year
100% of enhanced level annuity income	£16,280 per year
Maximum starting income (120% of enhanced level annuity)	£19,536 per year
Eric's chosen starting income Eric is guaranteed to receive this amount each year until his five year review (unless he decides to change his income level)	£8,140 per year
Required Fund Performance	1.10% per year

To see how this could look over a period of time, try our online calculator at mgmadviser.com.

5 year review

What happens next?

In addition to annual statements, every five years we'll write and let your client know how much their policy is worth.

We will then calculate their new income level, based on the actual performance of their funds over the five years and the amount of income they've taken.

Their new income level will be broadly calculated on the difference between the actual investment performance of the policy over five years and the Required Fund Performance (RFP) for this period.

If your client's funds have performed better than the RFP, their income is likely to go up and if they haven't performed as well as the RFP, their income is likely to go down (although it will never drop below the amount of the minimum income guarantee).

We'll let your client know what their new income will be for the next five years and recommend that they speak to their financial adviser at each review to discuss whether any changes should be made to their chosen income level.

We'll make sure advisers get copies of all correspondence.



Here to help

Quote Hotline	0845 055 60 55
By fax	0845 601 60 70
Or call one of our annuity specialists on	0845 608 6171
By email	ifaservice@mgmadvantage.com
By post	Designs for Retirement MGM Advantage MGM House Heene Road Worthing West Sussex BN11 3AT

Please note that calls may be monitored or recorded for quality and security purposes.





We're a founder member of Options, a new industry-wide service provided by Origo. This service has been designed to reduce the amount of time it takes to transfer money between pension companies so that we can start your annuity payments as quickly as possible. The service is similar to the BACS service run by the banks where money is electronically transferred between companies.



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