

Worked example

2012 Rates

We have based this calculation on an annuity bought in October 1991 with a starting income of £2,405 per annum. All the figures quoted are gross per annum.

Please note that the rounding of figures used in this example mean that a customer taking out a With-Profits Annuity under the same terms as this example may see an income that is roughly £1.00 more or less than the quoted income.

The calculation is performed as at the policy anniversary of 14 October 2012 and takes effect from 1 November 2012.

There is a Glossary of terms at the end of this document which provides more details about the terms we use in this calculation.

Your With-Profits Annuity Summary

Current yearly income:	£906
New yearly income with effect from 1 November 2012:	£850
New Declared Reversionary Bonus Rate:	0.00%
Overall Rate of Return:	3.00%
Your Anticipated Bonus Rate:	6.50%
Your Guaranteed Interest Rate:	3.50%
Investment Fund:	Prudential's With-Profits Fund

Please note that the information on this page is only a summary. You can find out more about how your income is calculated on the next page.

For more information about our 2012 Bonus Declaration, please go to:

http://www.pru.co.uk/existing_customers/equitable_life/2012_EL_bonus_rates/

Call us at local rates on 0845 640 0000 8.30am to 6pm – Mon to Fri. Calls may be monitored or recorded for quality and security purposes.

➤ Prudential With-Profits Annuity Yearly Statement

How your new income is calculated

We have used this calculation to work out your new income. For an explanation of the terms used, please refer to the Glossary of Terms.

The calculation is performed as at your policy anniversary of 14 October 2012 and takes effect from 1 November 2012.

Please note that the rounding of figures used in this calculation may mean that your income varies by up to £1.00. All figures quoted are per annum gross.

In order to carry out the calculation you must first convert all percentage values shown into decimals. For example:

If your Anticipated Bonus Rate is 6.50% then this becomes 1.065 $((6.50 \div 100) + 1)$

If the Overall Rate of Return is 3.00% then this becomes 1.030 $((3.00 \div 100) + 1)$

Step 1 – Calculate your new Guaranteed Annuity

Your Guaranteed Annuity represents your original starting income reduced by your Anticipated Bonus Rate each year. Any Declared Reversionary Bonus Rates (when applicable) are added to this amount.

Your Guaranteed Annuity for last year was	£906
Divide this amount by your Anticipated Bonus Rate of 6.50%	
Convert your Anticipated Bonus Rate: $((6.50 \div 100) + 1) = 1.065$	
Divide £906 by 1.065. This gives	£850
Multiply this by Declared Reversionary Bonus Rate of 0.00%	
Convert the Declared Reversionary Bonus: $((0 \div 100) + 1) = 1$	
Multiply £850 by 1. This gives	£850
New Guaranteed Annuity	£850

Step 2 – Calculate your new Total Annuity

Your Total Annuity is only payable if it is greater than your Guaranteed Annuity calculated over the page. Your Total Annuity is reduced each year by your Anticipated Bonus Rate and Guaranteed Interest Rate when applicable. The proportion of Interim Rate of Return that was applied at your previous annual review is also removed. Then we apply the new proportion of Interim Rate of Return and the new Overall Rate of Return applicable.

First we need to take off any allowance for Interim Bonuses that were applied last year together with your Anticipated Bonus Rate and Guaranteed Interest Rate.

Your Total Annuity for last year was £835

Multiply your chosen Anticipated Bonus Rate of 6.50% and your Guaranteed Interest Rate of 3.50%

Convert your Anticipated Bonus Rate: $((6.50 \div 100) + 1) = 1.065$

Convert the Guaranteed Interest Rate: $((3.50 \div 100) + 1) = 1.035$

Multiply 1.065 by 1.035. This gives 1.102275

Turn this back into a percentage: $((1.102275 - 1) \times 100)$ this gives (A) 10.227500%

The Interim Rate of Return declared for your annuity in 2011 was 6.00 % per annum, your proportion of this was

The proportion is based on the number of days between 1 January 2011 and your policy anniversary of 14 October 2011 (287 days)

Divide this number by the number of calendar days in 2011 (365 days).

$287 \div 365 = 0.7863013$

Multiply the result by 6.00 (which is the declared Interim Rate of Return).

This gives 4.717808. Your proportion of Interim Rate of Return is therefore (B) 4.717808%

Multiply the results of (A) and (B)

Convert (A) : $((10.2275 \div 100) + 1) = 1.102275$

Convert (B) : $((4.717808 \div 100) + 1) = 1.04717808$

Multiply the results: $1.102275 \times 1.04717808 = 1.15427822$

Turn this back into a percentage: $((1.15427822 - 1) \times 100)$. This gives (C) 15.427822%

Step 2 – Continued

The next step is to calculate the Overall Rate of Return and the Interim Rate of Return to be applied.

The applicable Overall Rate of Return is	(D)	3.00%
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The Interim Rate of Return declared for your annuity in 2012 is 6.50%, your proportion of this is:

The proportion is based on the number of days between 1 January 2012 and your policy anniversary of 14 October 2012 (288 days).

Divide this number by the number of calendar days in 2012 (366 days).

$$288 \div 366 = 0.7868852$$

Multiply the result by 6.50 (which is the declared Interim Rate of Return).

This gives 5.114754. Your proportion of Interim Rate of Return is therefore	(E)	5.114754%
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Multiply the result of (D) and (E)

$$\text{Convert (D)} : ((3.00 \div 100) + 1) = 1.030$$

$$\text{Convert (E)} : ((5.114754 \div 100) + 1) = 1.05114754$$

$$\text{Multiply the results: } 1.030 \times 1.05114754 = 1.08268197$$

Turn this back into a percentage: $((1.08268197 - 1) \times 100)$. This gives	(F)	8.268197%
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To calculate your new Total Annuity we apply the new Overall Rate of Return and Interim Rate of Return and divide it by your Anticipated Bonus Rate and Guaranteed Interest Rate and previous years Interim Rate of Return.

Multiply your Total Annuity for last year by (F) and divide it by (C)

Your Total Annuity for last year was £835

$$\text{Convert (F)} : ((8.268197\% \div 100) + 1) = 1.08268197$$

$$\text{Convert (C)} : ((15.427822 \div 100) + 1) = 1.15427822$$

Multiply £835 by 1.08268197 and divide the result by 1.15427822

This gives	£783
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New Total Annuity	£783
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Step 3 – Revised yearly income

In accordance with the terms of your policy your revised yearly income for the next 12 months is the higher of the New Guaranteed Annuity or the New Total Annuity.

Your New Guaranteed Annuity is £850

Your New Total Annuity is £783 therefore:

Your Revised Yearly Income is	£850
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Of which, your Final Bonus for the next 12 months, is	£0.00
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Your Final Bonus is the difference between your new Total Annuity and your new Guaranteed Annuity. If the difference between the Total Annuity and the New Guaranteed Annuity is negative we have uplifted this to be zero, as is the case for this example.

› Glossary of terms

We hope the following explanations will be of help when reading your yearly With-Profits Annuity statement.

Anticipated Bonus Rate

When you bought your annuity you anticipated the level of bonuses to be declared for your annuity in the future. This is called your Anticipated Bonus Rate (or ABR). The ABR helped to determine your starting income. The higher the ABR, the higher the starting income.

The ABR is also taken into account in the yearly review calculation of both your Guaranteed Annuity and your Total Annuity. A high ABR means the annuity will have a lower growth potential and increases the risk of future income reductions.

If you chose a Low Start Annuity your Anticipated Bonus Rate will be shown as -3.50% and the annual review calculations will differ from what is shown in this example.

Declared Reversionary (or Regular) Bonus

A rate we declare that applies from 1st April to 31st March each year and is used to calculate the level of your New Guaranteed Annuity. In line with previous Equitable Life practice we do not expect to add any reversionary bonuses to your Plan in the foreseeable future.

Guaranteed Interest Rate

If your annuity was issued before 1 July 1996 your annuity will contain a Guaranteed Interest Rate of 3.50%.

The Guaranteed Interest Rate would also have had the effect of increasing your starting income, but reduced the prospect for future growth of your Total Annuity over time.

Guaranteed Annuity

This is your original starting income which has been reduced by your chosen Anticipated Bonus Rate year on year. Any Reversionary Bonuses declared are added to this amount.

[Back to Guarantee Annuity calculation](#)

Interim Rate of Return (IRR)

The Interim Rate of Return is applied to the Total Annuity part of your income. The amount of interim bonus applied is proportionate based on the number of days between the end of the last calendar year for which an Overall Rate of Return has been declared and your policy anniversary. The Interim Rate of Return is temporary and does not form a permanent addition to your income.

Overall Rate of Return (ORR)

A rate declared from the 1st April each year based on the performance of the With-Profits Fund during the previous calendar year. This is used to calculate your Total Annuity.

Total Annuity

Your Total Annuity has been calculated using the Interim Rate of Return, Overall Rate of Return, Guaranteed Interest Rate and your chosen Anticipated Bonus Rate. The Total Annuity amount is only payable if it is greater than the Guaranteed Annuity amount. We will pay the higher of these two amounts (Guaranteed Annuity or Total Annuity amount).

[Back to Total Annuity calculation](#)

Final Bonus

This is the difference between the newly calculated Guaranteed Annuity and the Total Annuity. If the difference is negative, we will uplift this to zero.