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A guide to value protection in annuities

What is it?

Value protection

Value protection (also known as annuity protection) ensures that if the policyholder dies before receiving the full value of their pension pot through annuity payments, the remaining balance is paid out as a lump sum to beneficiaries.

What are the options?

- Standard value-protection for 90 days from the plan start date
- Extend the value-protection for the rest of the policyholders life or for a specified term, beginning at the plan start date
- Protects up to 100% of the price paid for the annuity, less any payments already made
- Lump sum paid to beneficiaries.

Why do some people choose a value protection period?

Protects the pension investment

If the policyholder dies early, the annuity provider will calculate how much income has been received so far. If it's less than the amount used to buy the annuity, the difference is paid to beneficiaries.

Provides financial security for loved ones

Ensures the spouse, children, or other nominated beneficiaries receive a lump sum, helping to support them financially after death.

Combines with other death benefits

Value Protection can be selected when there is a spouse or dependent pension, providing additional protection upon the death of the last surviving life. If the 90-day value protection is extended, it effectively replaces the guarantee period, so these two options cannot be combined.

If the policyholder does not select any additional benefits, they will receive both the standard 90-day value protection and a 1-year guarantee period.

- If the policyholder dies within the first 90 days, a lump sum will be paid to one or more chosen beneficiaries. This will be equal to the price paid for the annuity, less any payments already made, and this payment will replace any payments due under the standard guarantee.
- If the policyholder dies after 90 days but within 1 year of the policy start date, payments will be made to the dependent or the estate for the remainder of the guarantee period.

Peace of mind

Addresses a common concern that annuity buyers may "lose" their pension if they die early. This reassurance can make annuities more appealing.

Modest cost

While value protection reduces the annual income slightly, the cost is often considered reasonable. For example, a 60-year-old might see a reduction of around £140 per year for 100% protection.

Example

Example scenario

- Pension pot: £100,000
- Annuity type: Single life annuity
- Value Protection: 100% of income for 15 years
- Death occurs: After 5 years

Without value protection

- Annual Income: £6,000
- Receive £6,000 per year for 5 years = £30,000 total
- Upon death, payments stop
- Total Paid Out: £30,000

With value protection

- Annual Income: £5,860
- Receive £5,860 per year for 5 years = £29,300 total.
- Upon death, a lump sum of the remaining value of the annuity is paid to the beneficiaries. £100,000 - £29,300 = £70,700
- Total Paid Out: £100,000 (Policyholder + beneficiary)

Summary

Value protection ensures that the pension pot doesn't "disappear" if the policyholder dies early. Instead, their loved ones receive the unused portion, giving peace of mind and financial security for their family.

Feature availability may vary by product. Please use the corresponding product literature for details.

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