

A guide to overlap and proportion in annuities

What is it?

Overlap

- **Definition:** Payments to the dependant start immediately after the annuitant dies, even if the guarantee period is still running
- **Effect:** Both the guaranteed payments and the dependant's pension are paid at the same time.

Example:

- A 15-year guarantee and a 50% spouse's pension
- Policyholder dies after 5 years.

The beneficiary receives:

- £6,000/year for the remaining 10 years of the guarantee period

The spouse receives:

- £3,000/year (50% of your annuity) for life starting immediately.

Proportion

- **Definition:** Payments to the dependant begin only after the guarantee period ends
- **Effect:** The dependant's pension is delayed until the guaranteed payments stop.

Example:

- Same setup: 15-year guarantee and 50% spouse's pension
- Policyholder dies after 5 years.

The beneficiary receives:

- £6,000/year for 10 years (guarantee period)

The spouse receives:

- £3,000/year for life starting in year 11



Why do some people choose an overlap or proportion period?

People choose overlap or proportion options on annuities based on their priorities for how death benefits are paid to dependants. Here's why someone might choose one over the other:

Why choose overlap

1 Maximising early income for dependants

- Payments to your spouse or partner begin immediately after your death, even if a guarantee period is still running.
- This can be helpful if the dependant needs extra financial support right away.

2 Higher Total Payout in Early Years

- During the overlap period, the dependant receives both the guaranteed income and their own pension income.
- This results in higher payments for a period of time.

3 Peace of Mind

- Knowing your loved one will receive their spouse's pension without delay, even while guaranteed payments continue.

Why choose proportion

1 Smoother long-term income

- Payments are spread out: the dependant receives the guaranteed income first, then their own pension income.
- This can help with long-term budgeting and financial planning.

2 Lower Initial Cost

- Annuities with proportion may offer slightly higher income to the annuitant because the insurer expects to pay less in the early years.

3 Simpler Structure

- Some people prefer the clarity of sequential payments rather than overlapping ones.



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AN02073 11/2025 © Aviva

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