

A guide to escalation - Guaranteed Fixed Term Income Plan

What is it?

Escalation options

When setting up a Guaranteed Fixed Term Income Plan, **escalation options** determine how income increases over time. These are important for protecting the purchasing power against inflation. Here are the main types:

What are the Guaranteed Fixed Term Income Plan escalation options?

Escalation Type	Description	Pros	Cons
Level (Non-escalating)	Income stays the same throughout plan term	✓ Higher starting income	✗ No inflation protection
Fixed escalation	Income increases by a fixed percentage each year (e.g. 3% or 5%)	✓ Predictable growth	✗ Lower starting income
RPI-Linked (Inflation-Linked)	Income increases in line with Retail Prices Index (RPI) or increases in line with RPI, capped at 5% otherwise known as LPI.	✓ Protects against inflation	✗ Can be expensive; lower initial income

Why do some people choose escalation?

Usually chosen for peace of mind that income will grow each year, either at a fixed rate or in line with inflation. This helps protect against rising living costs over time.

Example

Let's say they buy a Guaranteed Fixed Term Income Plan with a £100,000 pension pot:

- **Level income:** £6,000/year for life.
- **3% escalating income:** Starts at £4,800/year, increases by 3% annually.
- **RPI-linked income:** Starts at £4,500/year, increases with inflation.

Summary

Things to Consider

- **Plan Term:** Escalating guaranteed fixed term income plans pay off more over time.
- **Inflation outlook:** If inflation is expected to rise, escalation protects income.
- **Immediate income needs:** Level guaranteed fixed term income plans give more income upfront.
- Escalation applies to income only, not any guaranteed maturity value selected

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

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