SECURE LIFETIME INCOME

A TECHNICAL GUIDE TO THE CASH-IN VALUE FOR CUSTOMERS

Secure Lifetime Income (SLI) provides you with a guaranteed income for life comparable to the income from a Just lifetime annuity. However, unlike lifetime annuities, SLI offers you a cash-in option for a set period.

If your circumstances change significantly, you could use the cash-in option and give up your future income payments and entitlement to death benefit in return for a lump sum. This is the cash-in value.

This document provides answers to more technical questions about the cash-in value. There is more general information about the cash-in value, in the **Secure Lifetime Income Customer Guide**.

What is the cash-in value?

When you buy a Secure Lifetime Income, the cash-in value gives you access to a cash lump sum. This gives you an option to react to situations where your circumstances have changed, giving you flexibility. This should also provide you with some peace of mind.

The cash-in value can help overcome one of the key objections to lifetime annuities – namely that, once purchased, they are an irreversible decision beyond the cancellation period. With Secure Lifetime Income, there is now something you can do about it – albeit at a cost.

How much is the cash-in value worth?

The available cash-in value depends on when the cash lump sum is taken and market conditions at that time, most importantly long-term interest rates.

You will receive personalised cash-in value examples in your **Personal Quotation.**

How is the cash-in value calculated?

- At outset the cash-in value of an SLI is equal to the guaranteed death benefit, which is 75% of the purchase price.
- The cash-in value is then calculated on a daily basis, taking into account market conditions. It is also limited to be no more than the guaranteed death benefit at the time.
- The guaranteed death benefit reduces by twice the amount of each monthly income payment due, until it reaches zero. The cash-in value is therefore limited to be no more than this amount.
- We also carry out an internal valuation of the SLI, applying the principles within the regulations that govern Just's capital requirements as an insurance company, and allowing for market conditions at the time.
- We compare this internal valuation with the cash-in value of the SLI at outset. If this shows a greater proportionate reduction in value than the death benefit, then we reflect this in the cash-in value. This is most likely to happen when long term interest rates have increased since the start of the SLI.
- The cash-in value for each policy is provided daily to your SIPP provider, and will normally be displayed on its platform.

How we work out the cash-in value if market conditions remain the same.

If market conditions remain the same the cash-in value will be the same as the death benefit.

Example: to show how the cash-in value calculation is made, if we take an illustrative example of a 66-year-old with a £100,000 premium, who receives £6,000 per year in income, the following steps describe the process

Step 1

First we work out the initial cash-in value which is simply 75% of the purchase price.

£100,000 purchase price x 75% = £75,000 initial cash-in value

Step 2

The cash-in value then reduces by twice the amount of income due.

The income is £6,000 per year divided by 12 months = £500 monthly income.

Starting with the initial cash-in value of £75,000 at the start of month one, we take off twice the monthly income (£500 x 2) = £1,000. This gives us a cash-in value at the start of month two of £75,000 minus £1,000 = £74,000

Step 3

The cash-in value will continue to decrease by twice the monthly income until it reaches zero when the cash-in value will no longer apply.

Provided that you do not take the cash-in value, the Secure Lifetime Income will of course continue to pay the monthly income for the rest of your life.

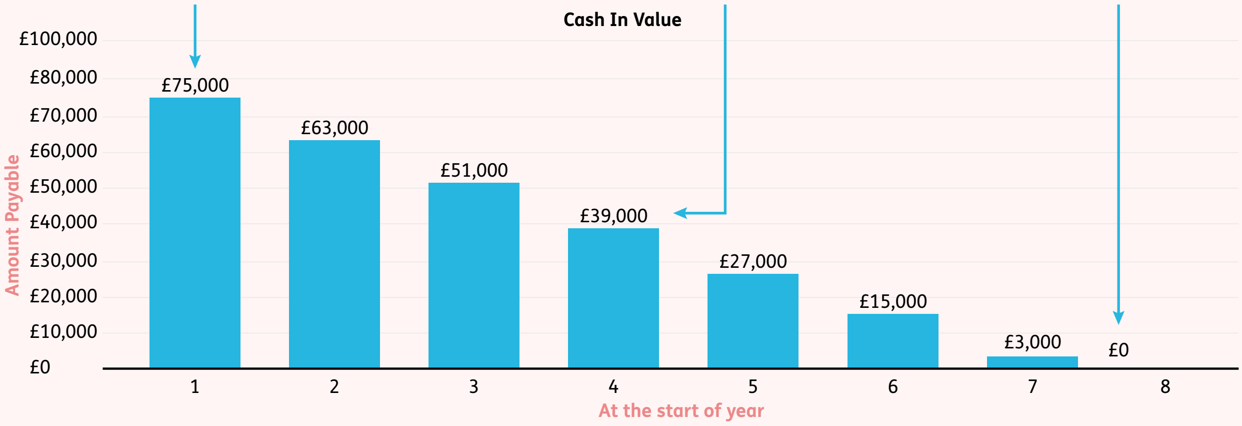
In this example the cash-in value will no longer be available after six years and three months

This graph shows what the cash-in value looks like on an annual basis.

The cash-in value is derived from the guaranteed death benefit. At the start of the plan the cash-in value is £75,000 – 75% of the £100,000 investment

After three years of income (£18,000) has been paid, the maximum available cash-in value based on the guaranteed death benefit value would be £39,000 i.e. £75,000 – £36,000 (2 x £18,000)

After six years and three months of income has been paid, the cash in value is £0 but the guaranteed income continues for life



How we work out the cash-in value if market conditions change.

The cash-in value is not guaranteed and market conditions could affect the cash-in value. If, for example, long term interest rates increase, the cash-in value may be lower than the values shown above.

The table below, based on an illustrative example of a 66-year-old with a £100,000 premium, who receives £6,000 per year, shows how the cash-in value would react if the interest rates used to value all future payments increased by 1% p.a. or 3% p.a. on the day after purchase and remained at the increased level from then on. For the avoidance of doubt, an increase of 1% means, for example, that an annual interest rate of 1.5% is assumed to increase to 2.5%.

The interest rates we use are based on the yields available on the assets we expect to buy in order to back our liabilities and reflect the regulations which govern our capital requirements. These assets are mainly corporate bonds and lifetime mortgages. The approach we follow in complying with the capital regulations is independently overseen by the Prudential Regulation Authority. At any point in time, we use the same interest rates for determining cash-in values as we use to calculate the capital requirements we assume in pricing new SLI business.

At the start of year	Cash-in value assuming no change in interest rates	Cash-in value assuming interest rates increase by 1% p.a.	Cash-in value assuming interest rates increase by 3% p.a.
1	£75,000	£68,458	£57,984
2	£63,000	£63,000	£55,276
3	£51,000	£51,000	£51,000
4	£39,000	£39,000	£39,000
5	£27,000	£27,000	£27,000
6	£15,000	£15,000	£15,000
7	£3,000	£3,000	£3,000

As you can see, the impact of the change is more significant if rates increase by 3% p.a. compared to 1% p.a. But for this example, in both cases it only affects the first two years and then the values remain the same. Other SLI examples might be affected for a longer or shorter period. In general, an interest rate change is likely to have a longer impact for plans with longer cash-in value periods. A personalised example is available in your **Personal Quotation.**

The reason for this pattern is that interest rate changes affect our valuation of the SLI, with increased interest rates reducing the assessed value of the future income and death benefits. However, as the death benefit reduces by twice the amount of the income due, this will usually be lower than our valuation of the SLI once a sufficient period of time has passed. Therefore, the later cash-in value amounts are less likely to vary in response to changes in market conditions than the earlier ones.

Could anything else affect the cash-in value?

Yes. As described earlier in this document, the cash-in value depends on the value of the SLI policy, which is affected by regulations applying to Just. If those regulations, or the way we are required to implement them, change then that could affect the cash-in value. For example, if the regulations specified a change to the way in which we apply long-term interest rates when calculating our capital requirements, this could impact the cash-in value.

What happens to the Secure Lifetime Income if the cash-in value is taken?

It's important to note that once you take the cash-in value, the Secure Lifetime Income payments will stop and additionally there will be no future entitlement to death benefits. It's a one-off decision. The cash-in value offers you an opportunity to exchange future income payments and the entitlement to a death benefit for a lump sum now – it isn't an extra benefit paid on top of those benefits.

FOR MORE INFORMATION

Please contact your adviser or your SIPP provider.