

# Investment-Linked Annuities



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As an alternative to conventional annuities, annuities are available which are linked to the performance of an underlying investment fund, whether With Profits or unit-linked. These offer the potential for a higher level of income than a conventional annuity but carry a higher degree of risk, which means that the income may fluctuate and the annuitant might have to bear the cost of any changes in mortality.

With Profits annuities offer a return linked to the provider's With Profits fund and usually, the annuitant is asked to select a level of income within a given range, based on an anticipated annual bonus rate. If the actual bonus rate is less than the anticipated rate, the annuitant's income will reduce for the following year; and if it is more, the income will increase.

Unit-linked annuities are aligned to the insurer's internal or external unit-linked funds, and investors are permitted to switch between funds. Some providers permit annuitants to select their own investments, in a similar way to the Self-Invested Personal Pension. With most unit-linked annuities, an anticipated growth rate is selected, similar to the anticipated bonus rate on With Profits annuities. The higher the rate selected, the higher the income but the lower the future increases are likely to be; and if the selected funds perform less well than hoped, the annuity income will fall.