

Product crunch

# AEGON 5 FOR LIFE

This month our experts investigate Aegon's relaunched 5 for Life third-way product, which is set to benefit both the pre- and at-retirement market



By Douglas Grant, head of business actuarial at Aegon Scottish Equitable

Originally launched in September 2006, Aegon's 5 for Life was the first 'third way' product of its kind to be offered in the UK. Sitting between a purchased life annuity and an investment bond, the product offers investors a choice they had never had before: control of fund and certainty of income. Until the launch of 5 for Life, investors had two options – capital growth potential or annuity income. Of course, they could split their investments between the two options; however, they were effectively diluting the potential benefits by doing this.

Any time from age 60, investors can take 5% of their original investment each year for life, regardless of investment performance and longevity. The product is aimed at the pre- and at-retirement market. In the years before income starts, the fund value is reviewed on each policy anniversary. If the fund has grown, the 5% guaranteed income will be based on the new, higher fund value. Once income payments have started, there is a regular three-year review. Again, if the underlying fund has grown, the guaranteed income will be increased to reflect the new, higher amount.

Recently, Aegon relaunched the product with a couple of valuable additions. There is now a 10-year money-back guarantee and increased investment options.

After the 10th policy anniversary, investors are now guaranteed to get back at least their original investment – less income already taken. So, no matter what happens with investment performance, your clients know they will not lose any of their original investment, as long as they remain 'on the books' for at least 10 years.

Investors now also benefit from a much wider



Douglas Grant, Aegon Scottish Equitable

investment choice, with 50 funds to choose from. The fund range includes Aegon funds, multi-manager portfolios managed by Morningstar, and a whole range of external fund links from household names such as Fidelity, JPMorgan, Merrill Lynch and UBS. There is also an online planning tool to help advisers build suitable investment portfolios.

- There are three types of charges for 5 for Life: Annual management charge (AMC), which covers the investment costs. This varies by fund.
- Standard establishment charge of 1.25% a year for five years to cover set-up costs
- Charge to provide guaranteed income for life. This varies according to the equity content of the client's fund structure. If a client has 50% equity exposure, the cost for the guarantee on income for life is 0.5% a year. For 60% equity exposure, the cost for the guarantee on income for life is 1.5% a year.

## No matter what happens, your clients know they will not lose any of their original investment

Commission can be sacrificed for additional allocation, and there is also a lower commission option, which has lower establishment charges. ■

### 5 FOR LIFE KEY FEATURES

- New approach in the UK market to provide control of fund and certainty of income
- Link-linked investment plan that provides guaranteed income for life
- Target market is at or near retirement – age 50 plus
- Income of at least 5% of original investment each year no matter what happens to underlying investment or how long you live for
- Income can be taken at any time from age 60
- £15,000 minimum investment, no maximum
- Minimum age at entry 45, maximum age at entry 80
- Potential for income to increase with underlying investment growth
- Tax-efficient: based in Dublin so funds will grow virtually tax-free, with tax paid on death or on encashment
- Flexible access to capital – can be partially or fully cashed in at any time
- Guaranteed death benefit – greater of 100.1% of cash-in value or original premium minus income received
- After 10 years there is a guaranteed return of original investment less income received
- Choice of 50 funds
- Online portfolio planning tool at [www.5forlife.co.uk](http://www.5forlife.co.uk)

Product crunch

THE PRODUCT CRUNCHERS



Anna Bowen, investments manager AWD Chase de Vere



Ian Robertson, chief executive officer Investment Group



Peter Chubb, principal CBK

Fund choice

There is a pretty good choice of funds, including a choice of core portfolios for those who can't choose and want a less expensive option, and multi-manager portfolios for those who want active management of their overall portfolio. There is a necessary restriction on the equity exposure and higher-risk funds allowed, as the product needs to be able to shore up the income guarantee.

8/10

Flexibility

Given it is a type of annuity, it is very flexible as it allows a guaranteed income for life that has the potential to increase over time, as well as allowing access to the capital if necessary.

7/10

Service standard

Excellent service for our research department in particular. A good service all round. Any queries are answered promptly.

9/10

Technical support

5 for Life has its own microsite with information and tools to help understand the product and position it for clients. Literature is readily available and there is an option to arrange for a call back with further information.

7/10

Value for money

There are three charging structures available to accommodate fees or commissions. All charging structures offer 100% allocation and the charges are reasonably competitive. Obviously you pay extra for the guarantee. The contract allows 12 free switches and a free valuation any month and costs are incurred. The annual management charges on the internal funds are well controlled; some of the external fund links are pricey but there are plenty to select from to keep costs down.

7/10

AVERAGE 8/10

Fund choice

There is a reasonable fund choice here although we feel that fixed interest and tracker funds could easily be replicated with exchange-traded funds or similar thereby reducing the overall cost of the product for investors. The levels of charges in these areas could bite considerably into the returns currently available in fixed interest. There is a good selection of equity funds to choose from.

7/10

Flexibility

This is a fairly flexible product within an area of planning that is typically inflexible, and we commend Aegon for attempting to address the concerns of UK investors wishing to avoid purchasing a retirement annuity and losing control of their accrued retirement capital. The tax advantages and reasonable range of investment offers good options to retirement and pre-retirement investors.

Service standard

Service standards appear good and it's comforting to know that this innovative product has already won two awards for service and innovation. Clients should also benefit from Aegon's good administration.

7/10

Technical support

Support is good, with dedicated support material both printed and online, and good online planning tools for those wishing to build suitable portfolios as opposed to picking from one of the eight pre-built propositions.

7/10

Value for money

Our concern over value lies with many investors equating substantial fixed interest elements to their portfolios and there are cheaper ways of achieving this. ETFs and, if allowable, direct fixed interest purchases would offer better value for money for most investors.

6/10

AVERAGE 7/10

Fund choice

Until recently there was no effective fund choice but the latest product enhancement has seen the addition of four multi-managers portfolios or the option to self-select from a range of 50 funds. This may not be sufficient choice for some but the guaranteed income in the season 5 for Life would be recommended, which somewhat lessens the need for an extensive fund range.

6/10

Flexibility

Considering the alternative method of producing income, certainty is a purchased life annuity, then having access to capital, control of funds and return of fund on death means considerable flexibility for the investor. In addition, the 10-year money-back guarantee could prove invaluable.

Service standard

Service levels from Aegon are generally good. Decent support is available through the local branches for general product or sales queries. New business processing could be slightly improved.

9/10

Technical support

A dedicated team in Dublin deal with technical queries and general offshore queries. Support is perfectly adequate combined with branch and broker consultant assistance.

7/10

Value for money

This product is not cheap. The individual fund annual management charges are not unreasonable and the establishment charges are fairly standard but the cost of providing the guarantee also needs to be factored in. However, I believe that in consideration of what 5 for Life offers in terms of guarantee and flexibility, overall value for money is provided when utilised as part of an overall investment strategy.

7/10

AVERAGE 7/10

AEGON SCOTTISH EQUITABLE INTERNATIONAL – 5 FOR LIFE

Company	Contract	Single life	Joint life	Min. initial investment (£)	No. of life policies	Charge for additional policies (%)	Minimum surrender value in any fund (£)	Ready to withdraw amount (£1000)	% of total portfolio on death	Est. charge Year 1 (%)	Est. charge Year 2 (%)	Est. charge Year 3 (%)
AEGON SI	5 for Life - A	Yes	No	10000	12	1% of value notified	5000	10.00	100% surrender value	0	0	0
AEGON SI	5 for Life - B	Yes	No	10000	12	1% of value notified	5000	10.00	100% surrender value	4.25	5.75	1.25
AEGON SI	5 for Life - C	Yes	No	10000	12	1% of value notified	5000	10.00	100% surrender value	3.75	2.55	0.75

Source: Synoptic (M&A) current as at 21/1/08