



redefining / standards

date
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account owner
Mr S Test
Client ID
12345678

PRIVATE AND CONFIDENTIAL

Mr S Test
12 Any Street
Anytown
Anyshire
AB3 4CD

✉ **AXA, PO Box 1810
Bristol BS99 5SN**

☎ **0117 989 1633**
Mon-Fri 8am-6pm

*Please quote your client ID when
contacting us*

Your pension income and the Retail Prices Index

Dear Mr/Mrs/Ms XXX

We are writing to tell you about potential changes to your pension income. This letter covers what can happen if the Retail Prices Index (RPI) falls or remains unchanged in the month we review your pension income. The important points are:

- We will not reduce your pension at your next review.
- There is no need for you to take any action now.

How does the RPI affect my pension income?

Your pension income is linked to changes in the RPI. The RPI measures the prices of a wide range of UK goods and services, including food, drink, housing and motoring costs. This is often called a 'shopping basket' of goods and services on which people typically spend their money. Each year, at your 'indexation' review we vary your payments in line with the basket's value. The adjusted payments then continue for the next 12 months.

What happens if the RPI falls or remains unchanged at my next review?

If this happens at your next 'indexation' review, the good news is that we will not reduce your pension payments. We will keep them at their current level. So if you receive a benefit of £100 that was linked to the RPI and the RPI falls by 2% we will not reduce your payment to £98, but keep it at £100. If the RPI remains unchanged, your payments will also remain unchanged.

What happens when you review my income in following years?

It's possible that at your following 'indexation' reviews the level of RPI could be below its previous highest level. In that case, we will keep your income payments at their previous level for another year.

AXA, PO Box 1810, BRISTOL BS99 5SN. TELEPHONE: 0845 300 0479

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How this works in practice

As each month goes by, the RPI is measured by a specific figure that represents the shopping basket we mentioned earlier. If the basket costs less in one month than it did 12 months before, your income payments will not change.

indexation review	shopping basket	impact
August 2008	£215	income payments set for next 12 months
August 2009	£211	no change in income payments
August 2010	£214	no change in income payments
August 2011	£217	income payments rise

As you can see, between August 2009 and August 2010 the basket rises in value from £211 to £214. In a situation like this, the **headline rate of inflation** would be 1.4% because the basket's value has increased by £3. However, your income payments will not increase because the basket of goods has still not risen above its previous highest level of £215.

In 2011 your income payment will rise in line with the rise in the cost of the shopping basket from £215 to £217. That is, it will rise by x%, which is the difference between the previous highest level and the level of RPI at the time.

If you have any questions or need more information about this, please call us on 0117 989 1633. Our lines are open Monday to Friday, 8am to 6pm.

Yours sincerely

Simon Bartlett
Customer Service Manager

 The **headline rate of inflation** is the figure you see in the news headlines. It's the percentage change in the RPI from one specific month 12 months ago, to the same month 12 months later. It doesn't measure the ups and downs in between.

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