

Annuities Value Protection

Value Protection can pay a lump sum to a beneficiary after the annuitant’s death.

Your clients want value from their money. We have Value Protection as an option for them if they want to leave a lump sum payment if they die earlier than expected.

Value Protection is usually chosen at 100% or 50% of the value of the pot used to buy the annuity, although any percentage can be chosen to suit your client’s needs. If your client were to die having received less income (gross) than the annuity purchase price, Value Protection would pay a percentage of the difference as a lump sum. Value protection is also available on joint life cases.

Scottish Widows only offers Value Protection paid out on death of the last survivor. This means the annuitant and beneficiary both have to die and receive less income (gross) than the annuity purchase price, for a lump sum to be paid. Other providers may offer Value Protection on a different basis.

This can only be bought through you or another intermediary and can’t be bought with a Guaranteed Payment Period.

Example 1

Sandra is a widow and receives a dependant’s pension which covers all the household’s outgoings. Sandra goes on holiday a couple of times a year and wants to use her own pension pot to cover these.

Sandra doesn’t like taking risks, which is why she feels an annuity is perfect for her. She also wants to make sure that her family doesn’t lose out on any money if she were to die. If she was to die early she’d like any unused money to go to her grandchildren. Sandra decided on 100% Value Protection. Sandra dies 11 years after taking out the annuity.

With the value protection Sandra had selected, the unused income was able to be paid out as a lump sum to her grandchildren.

Purchase price	£49,875
Income per year	£2,667
Value Protection percentage	100%
Lump sum on death (Year 11)	£20,538

Example 2

Chris has one pension pot and needs to cover his essential spend. He wants to maximise his income but doesn’t want to risk losing all the money he has used to buy the annuity. He knows this could happen if he were to die early.

Chris decides on taking Value Protection at 50% as it will impact the income less than taking 100% and likes the idea of his beneficiaries getting a lump sum. Chris dies 10 years after taking out the annuity.

As the total income received was more than 50% of the purchase price, there is no lump sum to pay out to his beneficiaries.

Purchase price	£49,875
Income per year	£2,960
Value Protection percentage	50%
Lump sum on death (Year 10)	£0

Figures are not guaranteed and are for illustrative purposes only.



What about tax?

The client can tell us who they would like to receive any lump sum, but we'll decide who to pay it to.

If your client dies under age 75 any Value Protection Lump Sum will be paid tax free. This will, however, count towards the Lump Sum and Death Benefit Allowance explained below.

The Lump Sum and Death Benefit Allowance is £1,073,100. This limits the total amount of tax-free lump sums that can be paid from all your client's pension plans put together. This amount includes death benefits and certain other lump sum payments (such as any paid out for serious ill-health). The limit may be higher if they've applied to HM Revenue & Customs for certain protections.

If they die over age 75, any lump sum will be fully taxable as income if it's paid to a beneficiary at their marginal rate of tax. If any lump sum is paid to their estate or a trust, it will be fully taxable at the Special Lump Sum Death Benefits Charge of 45%.

The tax position depends on an individual's circumstances. This is based on our current understanding of tax and may be subject to change.

Inheritance Tax won't normally be payable unless we have to pay the lump sum to their estate.

This information is for UK Financial Adviser use only and should not be distributed to or relied upon by any other person.



If you need extra help

You can find extra help and support at www.scottishwidows.co.uk/extra-help

If you would like a braille, large print or audio version of this document, please contact us.

If you have a hearing or speech impairment you can contact us using the Relay UK Service available 24 hours a day, seven days a week. Or you can call using textphone on **18001**.



Scottish Widows Limited. Registered in England and Wales No. 3196171. Registered office in the United Kingdom at 25 Gresham Street, London EC2V 7HN.
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.
Financial Services Register number 181655.

60724 10/25

Beehive ID	XXX	Page Size	A4 Portrait (210x297)	 Version 1
Stockcode	XXX	Page Count	XXpp	
Version Date	00/25	Date	04-Dec-2025	
Colour	RGB	Time	14:41:11	