

Mr XXX  
A & B Solicitors

Ms YYY  
C & D Solicitors

22 October 2008

Dear Mr Prince

**Actuarial report on the pension value(s) of  
Mr ZZZ's Company Pension Scheme  
Mrs ZZZ's 1<sup>st</sup> Insurer Personal Pension  
Mrs ZZZ's 2<sup>nd</sup> Insurer Personal Pension  
Mrs ZZZ's 3<sup>rd</sup> Insurer Personal Pension**

Transaction Number: A000101

Acting as an independent expert witness we attach a report on the actuarial valuation of the above pension(s). This report is done on the basis of the information provided and on information discovered from the pension scheme(s). It is for use in helping understanding the financial matters on divorce or dissolution.

The basis of valuation is specifically for use in the divorce or dissolution process. The pension value therefore differs from the Cash Equivalent Transfer Value (CETV) which is set for a different purpose.

We believe that this valuation meets the required standards for court proceedings.

Bradshaw Dixon and Moore provide a reallocation report service to consider possible or proposed pension sharing or attachment orders. Further details are available from [www.bradshawdixonmoore.com](http://www.bradshawdixonmoore.com). Alternatively another service provider could be used.

Please note the caveats to the report and who can rely upon it.

Yours sincerely,



N.H. Bradshaw FIA  
Director  
On behalf of Bradshaw, Dixon and Moore Limited



**Actuarial report on the pension value(s) of  
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## **1 Introduction**

- 1.1 We have been jointly instructed to provide a report which uses actuarial techniques to value the above pensions. It includes allowances for a number of features specific to the individuals and the purpose of the valuation. The Cash Equivalent Transfer Value (CETV) statutorily quoted by pension providers does not generally make these adjustments and therefore may not be appropriate for the purpose of valuing pension assets in the Ancillary Relief process.
- 1.2 This report calculates the values of pension values for use in divorce settlements and is not useable for other purposes.
- 1.3 We show the source of our information for this case in the following tables. Where we have had to make some assumptions in the client and scheme sections we would ask you to check them carefully as any error here could have a material impact on the value of benefits.
- 1.4 There is not one right value for a pension, rather a range of possible values. This is because the amount and value of pension payments to be made in the future depend on a range of factors which we cannot predict with certainty.
- 1.5 Therefore when we provide a numeric answer for an uncertain value we have provided our best-estimate value and a reasonable range within which the answer might lie. The limits of the range do not represent the absolute maximum or minimum possible values of the pension in all possible future circumstances. Rather they represent a range within which most valuations of the pension may sit.
- 1.6 The best-estimate value makes a series of assumptions about the future experience of a range of economic factors and demographic factors. The aim is to arrive at a value of the benefits without any bias one way or the other in the choice of assumptions. At any time Bradshaw Dixon and Moore use the same assumptions for all its bespoke reports regardless of whether the report has been instructed jointly or solely on behalf of the main pension holder or on behalf of their spouse.
- 1.7 Our value differs from CETVs because CETVs do not value all the appropriate benefits, do not value benefits in the right way and do not normally value on best-estimate assumptions. Further detail is given in the Appendix.
- 1.8 The report is for the use of Mr ZZZ and should not be relied upon by others. Mr ZZZ may, if wished, release copies of this advice to third parties, but we cannot be held liable for any course of action (or inaction) that the third party takes. Third parties always need their own actuarial advice.



- 1.9 Where this report is on the behalf of the Court I understand my duty to the Court to assist the Court on matters within my own expertise, that this duty is owed exclusively to the Court and overrides any obligation to the person(s) from whom I have received my instructions or by whom I have been paid.
- 1.10 I qualified as a Fellow of the Institute of Actuaries in 1989, and have expertise in the assessment of pension benefits.
- 1.11 I confirm that insofar as the facts stated in my report are within my own knowledge I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.
- 1.12 The report relies upon the information provided to us, and we cannot be responsible if the information is incorrect, or there is other relevant information which has not been disclosed.



N.H.Bradshaw MA (Oxon), FIA  
Director  
For and on behalf of Bradshaw Dixon and Moore Limited



## 2 Results

2.1 **Valuation date** 31/12/2008, We have assumed as a short period after valuation date

### 2.2 Summary

Pension	Best-estimate value	Reasonable range <sup>1</sup>
Mr ZZZ's Company Pension Scheme	£572,000	£506,000 to £648,000
Mrs ZZZ's 1 <sup>st</sup> Insurer Personal Pension <sup>2</sup>	£5,000	
Mrs ZZZ's 2 <sup>nd</sup> Insurer Personal Pension	£25,000	
Mrs ZZZ's 3 <sup>rd</sup> Insurer Personal Pension	£37,000	
Total for Mr ZZZ	£572,000	£506,000 to £648,000
Total for Mrs ZZZ	£67,000	£67,000 to £67,000

### 2.3 Pension details

#### 2.3.1 Mr ZZZ's Company Pension Scheme

Best-estimate value £572,000 (reasonable range £506,000 to £648,000)

Valuation allows pension accrued from start of service of 16/02/1982 and valuation date of 15/10/2008

Last CETV provided was for £423,419 as at 31/03/2008

#### 2.3.2 Mrs ZZZ's 1<sup>st</sup> Insurer Personal Pension

£5,000

Last valuation was transfer value of £5,204 on 06/04/2008

Valuation allows for no contributions to the plan after 06/04/2008

#### 2.3.3 Mrs ZZZ's 2<sup>nd</sup> Insurer Personal Pension

£25,000

Last valuation was transfer value of £20,974 on 12/04/2007

<sup>1</sup> See Section 1.4 and following.

<sup>2</sup> No range is given for money purchase benefits as their value at valuation date is not dependent on future assumptions. Their valuation at the valuation date may still be incorrect as it relied on our assumptions on the assets and their performance since the last known valuation information.



Valuation makes allowance for contributions to the plan between 12/04/2007 and 15/10/2008

**2.3.4 Mrs ZZZ's 3<sup>rd</sup> Insurer Personal Pension**

£37,000

Last valuation was fund value of £35,985 on 30/04/2008

Valuation allows for no contributions to the plan after 30/04/2008

EXAMPLE



## Data for Client's Valuation of Pension Assets

### 2.4 General Details:

#### 2.4.1 Client 1

		Source
<b>Name</b>	Mr ZZZ	
<b>Sex</b>	Male	
<b>Date of Birth</b>	01/07/1958	Company Pension Scheme Statement 19/05/2008
<b>NI number</b>	AA000000A	
<b>Health</b>	100% extra mortality rate than average for age	Opinion of Bradshaw Dixon Moore expert in life underwriting from confidential medical evidence provided
<b>Future salary expectations</b>	National average future salary increases, 2.0% above inflation	Our assumption based on client occupation
<b>Solicitor</b>	Mr XXX A & B Solicitors	

#### 2.4.2 Client 2

		Source
<b>Name</b>	Mrs Karen ZZZ	
<b>Sex</b>	Female	
<b>Date of Birth</b>	31/12/1961	Client
<b>NI number</b>	AA000000A	
<b>Health</b>	Average mortality	No instruction to review health, so used an average expectation
<b>Solicitor</b>	Ms YYY C & D Solcitors	



## 2.5 Mr ZZZ's Company Pension Scheme

		Source
<b>Firm or Pension Scheme</b>	Company Pension Scheme	Instruction
<b>Accrual period</b>	Valuation allows pension accrued from start of service of 16/02/1982 and valuation date of 15/10/2008	
<b>Service start date</b>	15/02/1982	Pension Scheme CETV statement 19/05/2008
<b>Service end date</b>	31/12/2011	3 years after valuation date, our standard for members still in service
<b>Pensionable salary</b>	£76,240.00pa at 31/03/2008	Pension Scheme CETV statement 19/05/2008
<b>Employment</b>	Full-time	
<b>CETV</b>	£423,419 as at 31/03/2008	Pension Scheme CETV statement 19/05/2008
<b>Scheme Retirement Age</b>	60	Pension scheme literature, for less significant matters some reasonable assumptions were made.
<b>Benefit accrual</b>	80th of Final Pensionable Salary for each year exactly	
<b>Final Pensionable Salary</b>	Best consecutive average of 1 year's pensionable earnings from the last 3 years	
<b>Lump sum at retirement</b>	Lump sum at retirement of 50% of annual pension at retirement	
<b>Contracting in/out status</b>	Contracted out of additional state pension.	
<b>Increase in benefits up to retirement</b>	In deferment, pensions escalate in line with statutory requirements of compound 5% or the increase in the Retail Price Index if lower.	
<b>Increase in pensions in payment</b>	In line with the Retail Price Index (RPI)	
<b>Death benefit<sup>3</sup></b>	Member's pension guaranteed to be paid for at least 5 years, plus if dies in service 50% of prospective annual pension at retirement, else if dies in deferment 50% of annual pension accrued to date of leaving, else if dies in retirement 50% of annual	

<sup>3</sup> Lump sum death in service benefits are not accrued benefits and so are not valued.



	pension at retirement.	
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### 2.6 Mrs ZZZ's 1<sup>st</sup> Insurer Personal Pension

		Source
<b>Transfer value</b>	£5,203.62 on 06/04/2008	Pension scheme statement 06/04/2008
<b>Fund value</b>	The transfer value has been used in the calculation	Not provided
<b>Contributions</b>	Valuation allows for no contributions to the plan after 06/04/2008	

### 2.7 Mrs ZZZ's 2<sup>nd</sup> Insurer Personal Pension

		Source
<b>Transfer value</b>	£20,973.60 on 12/04/2007	Pension Scheme statment 23/04/07
<b>Fund value</b>	The transfer value has been used in the calculation	Not provided
<b>Contributions</b>	Valuation makes allowance for contibutions of £100pm to the plan between 12/04/2007 and 31/12/2008	

### 2.8 Mrs ZZZ's 3<sup>rd</sup> Insurer Personal Pension

		Source
<b>Transfer value</b>	The fund value has been used in the calculations	Not provided
<b>Fund value</b>	£35,984.70 on 30/04/2008	Pension Scheme statment 30/04/08
<b>Contributions</b>	Valuation allows for no contributions to the plan after 30/04/2008	





## 2.9 Best-Estimate Assumptions

### 2.9.1 Economic Data and Assumptions

Historic values for Retail Price Inflation and other values have been used up to the latest available date.

The following are the key economic assumptions for future experience:

Retail Price Inflation	3.60%
Limited Price Inflation	3.40%
Increase in Average Earnings	5.60%
Return on assets backing annuities in payment	5.40%

The assets in a pension fund are assumed hypothecated on a mix of fixed-interest and equity assets that varies with the time to retirement. The longer the time to retirement the greater the percentage of equity assets. The aggregate investment return therefore varies with the time to retirement

Years to retirement	Investment return assumption
1	5.50%
5	5.70%
10	6.10%
20+	6.50%

Therefore different scheme retirement ages may result in different interest rates in deferment from case to case. These are listed with the scheme Data and Assumptions on a previous page.

On all individual pension plans, including personal pensions and annuities, we assume 4% expenses on new monies and 1%pa of fund annual charge.

### 2.9.2 Demographic Assumptions

We have allowed for mortality prior to retirement reflecting the AM/F92 tables which are suitable for the mortality of the working population.

After retirement, we have used the PMAFA92 ultimate tables with mortality improvement factors reflecting the actuarial professions "medium" improvement on a cohort basis but subject to a minimum improvement year on year of 2.5% per annum.

### 2.9.3 Reasonable range assumptions

The reasonable range assumptions make the following main variations to the best estimate assumptions.

Retail Price Inflation	3.20% to 4.10%
Return on assets backing annuities in payment	4.70% to 6.00%
Return on aggregate investment for 20+ years	5.60% to 8.00%
Mortality after retirement	-10% to +20%



### **3 Appendix Reasons why CETV is inappropriate in a divorce or dissolution**

There are a number of general reasons why a CETV for defined benefit (final salary) schemes may not be appropriate for divorce cases. The Express Pension Valuation does not identify which reasons apply for particular schemes, nor does it allow for the health of the pension holder.

#### **3.1 CETVs can ignore discretionary benefits**

A scheme can ignore discretionary benefits in calculating CETVs, even if the scheme intends to provide such benefits whenever possible. Examples of discretionary benefits include pension increases when in payment, generous early retirement terms or ill-health benefits.

#### **3.2 Schemes can offer different benefits for active members and leavers**

Some schemes offer worse benefits for leavers than active members. The assumption of leaving the scheme used by the CETV triggers a step-down to the worse benefits. For example most uniformed service schemes offer immediate pensions subject to minimum length of service requirements. However earlier leavers only get their deferred pension at a later age between 55 and 65 depending on the scheme.

#### **3.3 Active members lose the loyalty benefit of future salary increases**

Active members are assumed to leave at the date of the CETV. This loses them the loyalty benefit of future salary increases.

The pension accrued to date is based on a multiple of the years of service times the final pensionable salary of the member. The CETV assumes the member leaves service at the valuation date and calculates the final pensionable salary at retirement based on the current salary increased at the statutory valuation rate.

However the reality is that for as long as the member remains in service his salary will increase at a rate expected to be higher than the statutory valuation rate. Therefore the final pensionable salary is lower for the CETV than that actually expected and so the pension accrued is lower.

#### **3.4 Under-funded schemes**

The CETV can allow for the funding state of the scheme and can depress the value payable on transfer by the proportion of the scheme's full value that is not funded. As the CETV is for calculating assets to be taken from a scheme this is reasonable. However schemes now need to have plans to eliminate under-funding and a divorcee need not reduce their pension by taking a transfer and so it is inappropriate in a valuation for a divorce.



### 3.5 CETV assumptions within a best-estimate range

The assumptions of future experience used in CETV calculations need to be a best estimate and consistent with those for setting benefits on transfers in. There is however a range of possible best estimate methodologies and assumptions. It is not unreasonable within this range for schemes to veer towards lower valuations for CETVs which are for members leaving the scheme.

### 3.6 CETVs normally ignore the health of the individuals

CETVs are normally calculated assuming the member and their partner are in good health. However, the pension value should be reduced if either of the partners are in ill-health and their life expectancies are reduced, as the length of time pensions will be paid will be reduced.

If the member is in such ill-health that an ill-health early retirement pension is likely to be triggered then this will increase the value again as the pension might be paid earlier and on more generous terms.

EXAMPLE

