

Mrs ZZZ

22/10/08

Dear Mrs ZZZ

**Actuarial report on the pension value of Mr ZZZ
under the Police Pension Scheme**

Transaction Number: EPV(b)00000

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 information provided and is for use in helping understand 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.

This valuation is produced on limited information and there are a number of reasons why a valuation based on more complete data would differ. The main reasons are covered in the Report.

We recommend that a valuation using more complete information is undertaken to provide a value that can be relied upon in court proceedings.

Bradshaw Dixon and Moore provides a cost effective bureau service for standard valuations, or a full bespoke service for larger or more involved cases. Further details are available from 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 MA FIA
Director
On behalf of Bradshaw, Dixon and Moore Limited



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**Actuarial report on the pension value
of Mr ZZZ
under the Police Pension Scheme**

Divorce creates many changes in the personal and financial positions of the divorcees and their dependents. This report looks at one aspect of the financial position, the value of some of the pension assets.

The current value of a couple's pension assets can be the largest single component of a couple's combined assets, often more valuable than the family home.

It is therefore important that this asset is valued correctly. However, as with house prices there can be a range of values for the current worth of a pension of undetermined size that will be paid out sometime into the future.

This report uses actuarial techniques to make such a valuation. 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.

This report calculates the value of pension assets for use in divorce or dissolution settlements and is not useable for other purposes.

The report relies on limited information and there are a number of reasons why a valuation based on more complete data would differ. These include:

- ◆ Different scheme benefits from the assumed benefits for the type of scheme stated
- ◆ For past employments, a different final pensionable salary than assumed within the calculation
- ◆ For current employment different length of expected future pensionable service and / or different expected salary increases
- ◆ Where benefits have been enhanced by the employer
- ◆ Where the pension includes transfers values in

The report is for the use of Mrs ZZZ and should not be relied upon by others.

The report relies upon the information provided through the Express Pension Valuation system, 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 FIA

Director

For and on behalf of Bradshaw Dixon and Moore Limited

22/10/08



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Results for Client's Value of Pension Assets

General Details:

Report commissioned by: Mrs ZZZ

Pensionholder: Mr ZZZ

Sex: Male

DoB: 01/03/1965

Law: English

Pensions:

Firm or Pension Scheme: Police Pension Scheme

Date of Valuation: 01/11/2008

Benefit Type: Bespoke – PPS 1987

Start Date: 01/03/1999

End Date: 01/03/2020

Final or Current Pensionable Salary: £31,251

No transfers paid in

Calculated Pension Value: £136,500

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EXAMPLE



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Data and Assumptions

The assumptions used in the pension valuation are as follows:

- ◆ Pension : Police Pension Scheme
 - The scheme has been assumed to be PPS 1987, which can be categorised as:
 - Accrued benefits
 - Accrual rate of a 60.00th of Final Pensionable Salary based on potential service
 - Term of each complete year service and proportionate amounts for part years, from start date to the earlier of the end date and the valuation date, that is from 01/03/1999 to 01/11/2008.
 - Pensions to increase by price indexation, limited to a maximum of 5% per annum, in payment
 - Deferred pensions to increase by price indexation, limited to a cumulative growth of 5% per annum, until payment
 - Spouse's benefits of 50.0% of members' pensions
 - Final pensionable salary to be the last 12 months earnings, based on the stated final pensionable salary
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 - The economic assumption of the interest rate in deferment assumed to be 6.20%

EXAMPLE



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%

Social Security Act (SSA) Revaluation 3.50%

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. Example investment return assumptions are as follows

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 the previous page.

Mortality

The mortality rates after retirement are based on industry tables adjusted for expected mortality improvement in the future. No allowance has been made for the health of the individuals

For this Express Pension Valuation, we have ignored mortality before pensions begin on the assumption that death in service and death in deferment benefits have the same approximate current value as the pension at retirement.

Currently it is assumed that benefits on ill health early retirement are of an equivalent value to the accrued value of benefits, or at least not significantly different, and therefore a nil rate of ill health early retirement has been assumed.



Reconciliation Report

This report is an addendum to the Express Pension Report EPV(b)0000.

The CETV is designed to calculate the cash to transfer from a pension scheme in the event of a member leaving that scheme. It is an inappropriate valuation basis for someone who is intending to remain a member of a scheme, whether or not they are still employed by that employer.

The Express Pension Valuation (EPV) is a quick, neutral value for a pension benefit suitable for use in divorce or dissolution. It relies on the personal data provided and makes some simplifying assumptions to significantly reduce the amount of data required to be collected.

There are a number of reasons why an EPV result will differ from a CETV. In this case we have not seen the CETV and the following reconciliation of the differences is therefore necessary high-level and approximate. It does however clearly demonstrate the main features.

The EPV as calculated at 01/11/2008 was £136,500, you told us the CETV calculated at 01/08/2008 was £66,696. I will start with the EPV.

EPV	£136,500
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We were told to assume in the EPV that the member will remain employed in the Police Pension Scheme up to retirement at 01/03/2020. The pension accrued to date is based on a multiple of the years of service times the final pensionable salary of the member. In calculating the final pensionable salary of the member we have allowed for in-service salary increases from now up until retirement.

However 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. This is a lower rate than our assumed in-service salary increases. Therefore the final pensionable salary is lower and so the pension accrued is lower. These reduce the EPV by about £13,500 giving:

EPV, but without in-service salary increases	£123,000
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The police scheme is unusual that a police officer can retire after 25 years service and age 50 with an immediate pension (earlier in some cases). However if the police officer leaves service then the deferred pension is only payable from age 60.



In this case we were told to assume in the EPV that the member would retire after 21.0 years when aged 55.0 with an immediate pension, whilst the CETV will assume the pension is payable later from age 60. The difference is about £21,800 giving:

EPV, also with pension only paid from age 60 £101,200

The CETV was calculated at 31/08/2008 and the EPV at 01/11/2008. If different the EPV therefore includes a different period during which the pension benefit has been accrued. The time between the valuation date and the date of payment would also then be different. The CETV will be different to the EPV for both reasons. We believe that the difference is about £4,600

EPV, also calculated at CETV valuation date £96,600

Pensioners are living longer and longer, increasing the cost of their pensions. Currently most pension schemes have not changed their assumptions on the longevity of pensioners to allow for the latest available data and so are understating the cost of the pensions they provide. We cannot comment on the Police Pension Scheme specifically, but if this were the case the CETV would be lower than the EPV. The estimated difference is £9,600 giving:

EPV, also with older longevity assumptions £87,000

We have assumed that in retirement the scheme invests in guaranteed fixed-interest investments to back the pension commitments. This is a market consistent assumption in line with general practice for funded schemes. The Police Pension Scheme is unfunded and the Government assumes a higher interest rate when discounting future pension payments. This reduces the value of pension liabilities, including the CETV. The estimated difference is £21,800 giving:

EPV, also with different interest assumptions £65,200

There are a number of other reasons why the EPV and the CETV might be different. The personal data upon which we relied in producing the EPV, especially the current pensionable salary and the valuation date, might be different to that used for the CETV.

The benefits valued might be different, either due to the simplifying assumptions in the EPV, or for example the CETV might assume that all members exercise the commutation to lump sum option at retirement which is a less expensive benefit.



There are likely to be other differences in the actuarial assumptions used, in addition to the longevity assumption explained above. Combined these account for the remaining difference of -£1,496

EPV, but also with other differences = CETV £66,696

To summarise:

EPV	£136,500
EPV, but without in-service salary increases	£123,000
EPV, also with pension only paid from age 60	£101,200
EPV, also calculated at CETV valuation date	£96,600
EPV, also with older longevity assumptions	£87,000
EPV, also with different interest assumption	£65,200
EPV, also with other differences = CETV	£66,696

This shows both why there is such a difference between the EPV and the CETV, and why the EPV value is more appropriate in the divorce process.

The value of the EPV is critically dependent on the assumption you gave us of continued employment until completing 21.0 years services, followed by an immediate pension. If a different leaving assumption were made this would reduce the EPV result, though I would still expect it to be higher to the CETV. This assumption is personal to the case and we would not normally expect it to be in the remit of the actuary to decide upon.

It may be questioned if the simplifying assumptions behind the EPV, or the reliance on data provided by yourself rather than the pension scheme, are reasonable given the size of the amounts involved. We cannot answer that, but we can say that we think the EPV demonstrates that the cost of a more detailed actuarial report is proportionate to its value, rather than relying on the CETV. For example Bradshaw Dixon & Moore could produce such a report for £475.

Further information on the Express Pension Valuation and other pension valuations is available in the EPV Technical Guide from Bradshaw Dixon & Moore.



INVOICE

Mrs ZZZ

Report No: EPV(b)0000

Tax Date: 22/10/08

On the pension of: Mrs ZZZ

Quantity	Service	Unit Price	Total
1	Express Pension Valuation (Bespoke – Uniformed Services)	£25.00	£25.00
	Pensions Valued		
	Police Pension Scheme		
1	Reconciliation Report (Bespoke – Uniformed Services)	£25.00	£25.00
		Total Net:	£50.00
		VAT @ 17.5%:	£8.75
		Total:	£58.75

Thank you for your business

VAT Registration Number: 872 1323 40



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What to do with your Express Pension Valuation

For use in the Ancillary Relief process

If the Express Pension Valuation for a scheme differs significantly from the scheme CETV, you may wish to carry out a more detailed valuation, which can then be used in a court of law to inform the division of the pension asset. Additional calculations to achieve a specific split of assets may also be required.

Please see the summary of our services below, to see how we may help you achieve your objectives.

For use in Collaborative Law

If the parties are engaged in the Collaborative process, the EPV may be used as an alternative to conventional CETVs. In these circumstances, agreement may be reached to divide the pension asset based on the EPV alone.

However, if the pension value is significant enough, the parties may agree that a more detailed valuation is cost effective.

BDM Services

Bradshaw Dixon & Moore offers a straightforward and cost effective valuation service from our in house Bureau.

If the scheme is particularly complex or services such as income equalisation are required, a Bespoke Report may be more suitable. This can be tailored to your needs whilst still offering excellent value.

Alternatively, you may choose to commission a report from another actuarial source.

We recommend that you consult with your solicitor before commissioning a further actuarial report. They will be able to instruct us formally as an expert witness in a manner acceptable to the court.

For further information, we can be contacted on 0845 838 2551. A range of documents including charts to help you with the decision process are available from the Downloads page of our website:
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