Frequently Asked Questions – APTA with TVC

What is the critical yield and what is taken into account when generating it?

The critical yield is the estimated annual investment return required each year to purchase an annuity to provide benefits of equal value to the estimated benefits provided by the existing scheme at retirement.

The below variables are taken into account when calculating the critical yield.

• Client's Date of Birth

• Client and Spouse's Current Age (where applicable)

• Any Increases in Payment if applicable

• Any Spouse's Pension if applicable

• Number of Years of Guarantee if applicable

• Annuity Interest Rate (AIR). The AIR used in the report will be driven by the calculation date entered when running the

analysis. Please see the link below to the relevant section of COBS which shows how the AIR is calculated.

https://fshandbook.info/FS/html/handbook/COBS/13/Annex2

Why am I getting a critical yield in excess of 50%?

A short term to retirement may produce a high critical yield, the fund has a short term to grow to the calculated fund required to match the benefits provided by the existing scheme. If the client's retirement age is within a year of the calculation date used, a critical yield of 'in excess of 50%' may be shown. The system will cap the critical yield shown at 50%.

What is the Hurdle Rate?

The hurdle rate is the estimated annual investment return required to match the starting pension of the existing scheme, assuming no increases in payment, no spouse's pension and no guarantee period. This result is optional and does not have to be included in the report.

What date is the existing scheme pension and lump sum 'Capital Value of Benefits Payable on Death Before Retirement' based upon for 'Day One'?

The pension figure shown in our tables at 'Day One' for the existing scheme has been revalued from the member's date of leaving to the calculation date used in the analysis. Therefore, these figures will usually be higher than those shown at the member's date of leaving unless the member has deferred very recently.

Why does the Capital Value of Benefits Payable on Death before Retirement Comparison graph have no plotted points on it?

When the term between the calculation date and the client's retirement age is less than 4 years, the system will calculate one result, 'Day One'. The graph used is a line graph, with only one generated result, there is not enough data to populate the graph and therefore it will be blank.

Why don't your pension figures exactly match those quoted from the scheme?

This is often due to different assumptive rates being used for deferment increases in our system compared to the scheme assumptions. The system will always use historic figures for all indexed increases where available, using the published annual September tables.

How is the Pension Protection Fund (PPF) result calculated?

The assumptions used to calculate the PPF pension are in line with the PPF rules, please see their website for full details.

The system will revalue the pension benefits entered at the date of leaving by the scheme revaluation up to the calculation date, it is then assumed the PPF takes over the scheme. From the calculation date the PPF revaluation will apply. The PPF pension is subject to their own caps, if the revalued PPF pension is higher than the published cap, the pension will be restricted back to this cap.

The increase in payment for Post 97 Excess benefits will increase by CPI to a maximum of 2.5%. The Pre 97 benefit will not increase in payment.

The system will use the same Annuity Interest Rate for both the scheme pension critical yield and PPF pension critical yield, but where the increases are different the actual Annuity Rate could vary.

The PPF uses its own commutation factors to calculate the reduced pension and PCLS available at retirement.

What assumptions are available for the Income Options section of the report?

A single life or joint life (50% 5 year guarantee) annuity can be selected. The annuity can be level or indexed. The client's target age can be generated using the Office of National Statistics (ONS) life expectancy tables.

Why is the Income Options section not available in the report?

We use a single life, Retail Price Index (RPI) indexed annuity. The client's target age can be generated using the Office of National Statistics (ONS) life expectancy tables.

How does the tool take into account Lifetime Allowance Charges?

The system will calculate any penalties that may be applied for breaching the lifetime allowance. The lifetime allowance is assumed to increase by CPI (2%) each year.