

PENSIONS ACT 1995: SECTIONS 142-144

ACTUARIAL TABLES FOR CALCULATING THE MAXIMUM INCOME WITHDRAWAL UNDER PERSONAL PENSION SCHEMES AND MONEY-PURCHASE OCCUPATIONAL PENSION SCHEMES



DETAILS OF ACTUARIAL BASIS USED IN PRODUCING TABLES

PROTECTED RIGHTS

This document sets out the actuarial assumptions made in producing the tables for calculating the maximum and minimum income withdrawal under appropriate personal pension schemes (protected rights). These tables are known as

- Table A (for protected rights accrued before April 1997 for members),
- Table B (for protected rights accrued before April 1997 for spouses of members),
- Table C (for protected rights accrued after April 1997 for members who are married),
- Table D (for protected rights accrued after April 1997 for spouses of members and members who are unmarried).

Mortality

The standard male mortality table IM80 ultimate (U = 1996) is adopted for the table of income withdrawals for members. The standard female mortality table used is IF80 ultimate (U = 1996). These tables are produced by the Continuous Mortality Investigation Bureau of the Faculty and Institute of Actuaries, based on the mortality of people who have bought annuities. Improvements in mortality are projected to apply throughout their subsequent lifetimes for men and women at given ages in 1996.

The tables differ in their allowance for inheritance as follows:

- Table A (for protected rights accrued before April 1997 for members) – own life annuity based on male mortality table plus half-rate contingent spouse's annuity based on female mortality table, with spouse 3 years younger than member, with an assumed proportion married of 80% as at the reference date
- Table B (for protected rights accrued before April 1997 for spouses of members) – annuity based on single life, male mortality table
- Table C (for protected rights accrued after April 1997 for members who are married) – own life annuity based on male mortality table plus half-rate contingent spouse's annuity based on female mortality table, with spouse 3 years younger than member, with an assumed proportion married of 100% as at the reference date
- Table D (for protected rights accrued after April 1997 for spouses of members and members who are unmarried) – annuity based on single life, male mortality table.

Rate of Interest

The rate of interest used for deriving the annuity rates is set having regard to the gross redemption yield on UK gilts (Yield Indices: 15 years) published daily in the Financial Times newspaper, as the benchmark yield. This yield is convertible twice yearly, and is adjusted to the equivalent annual rate for calculating (but not looking up) the rates shown in the tables. For the purpose of looking up the rates given in the tables, the yield obtained direct from the published index is rounded down to the lower 0.25% (¼%).

To allow for the increases which are required on protected rights annuities, downward adjustments are made to the rates of interest used in calculating (but not looking up) the rates shown in the tables. The required increases on protected rights annuities for rights accrued before April 1997 are in line with the increases in the retail price index capped at 3%. The required increases on protected rights annuities for rights accrued after April 1997 are in line with the increases in the retail price index capped at 5%. In both cases, should the increase in the retail price index be negative, the pension should not be reduced.

The rates of interest used in calculating the tables are shown in the following table:

Interest rate (yield) as looked up in Financial Times %	Converted into an annualised rate %	Rate used in constructing tables for income withdrawal from protected rights	
		accrued before April 1997 %	accrued after April 1997 %
3.0	3.022	2.5	2.5
3.25	3.276	2.5	2.5
3.5	3.531	2.5	2.5
3.75	3.785	2.5	2.5
4.0	4.040	2.5	2.5
4.25	4.295	2.5	2.5
4.5	4.551	2.5	2.5
4.75	4.806	2.5	2.5
5.0	5.062	2.5	2.5
5.25	5.319	2.625	2.6875
5.5	5.576	2.75	2.875
5.75	5.833	2.875	3.0625
6.0	6.090	3.0	3.250
6.25	6.348	3.125	3.4375
6.5	6.606	3.25	3.625
6.75	6.864	3.375	3.8125
7.0	7.122	3.5	4.002
7.25	7.381	3.625	4.254
7.5	7.641	3.75	4.505
7.75	7.900	3.875	4.757
8.0	8.160	4.0	5.01

Expenses

In producing the tables a deduction of 2% of the purchase price of the annuity is assumed to allow for the initial expenses of insurance companies. In using the tables no such adjustment needs to be made.

Other

For practical purposes, the age definition used is the age attained at the last birthday before the reference date of the calculation, and the frequency of payment allowed for in the annuity rate is monthly in arrears.

Government Actuary's Department

February 2002