

## General Information

**Transvas Report: Annuity Rates**

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## What is the Annuity Rate?

The annuity rate is the rate of exchange of pension fund in an individual plan (PP or Section 32) into pension. So a rate of 20 would buy a pension of £5,000 per annum from a fund of £100,000.

It is also the rate at which pension amounts are converted into capitalised value for the purposes of finding the actuarial value of an annual pension in the existing scheme. So a pension of £5,000 per annum at retirement with an annuity rate of 20 would mean the pension had a capitalised value of £100,000.

## How is the Annuity Rate Calculated?

The annuity rate is determined in accordance with the rules and guidance in the FCA's Conduct of Business Sourcebook (COBS) in both COBS 13 Annex 2 and COBS 19.1.









In both instances the current mortality assumptions are derived from each of the Institute and Faculty of Actuaries' Continuous Mortality Investigation tables PCMA00 and PCFA00 and including mortality improvements derived from each of the male and female annual mortality projection models, in equal parts.

The mortality improvements are updated each year and take effect from 6<sup>th</sup> April, using the CMI Mortality Projections Models in the series CMI(20YY-1)\_M\_[1.25%] and CMI(20YY-1)\_F\_[1.25%], where YY-1 is the year of the model used.





A 4% expense loading is required to be included.

A different methodology applies depending on whether the pension has escalation in line with CPI, RPI or a level or fixed increase; COBS 19 and 13 cover all scenarios.

Factors that affect the annuity rate include:

-  Member Age;
-  Member Retirement Date;
-  Spouse's Pension Percentage;
-  Spouse Age;
-  Pension Escalation Rate Post Retirement;
-  Guaranteed Period;
-  Mortality Assumptions;
-  Annuity Interest Rate.

Factors that do not affect the annuity rate include:

-  Gender;
-  Death Before Retirement Benefits;
-  Future Growth Rate Assumptions;
-  Pension Revaluation Rate Pre-Retirement.

### Why doesn't the Transvas Report show Annuity Rates?

The existing scheme benefits are usually comprised of several different tranches or slices of benefits, all with differences in escalation and spouse's benefits, or starting and stopping at different dates (for example GMP coming into payment after retirement).

Showing all the separate annuity rates used to calculate the capitalised value adds further complicated information that would serve to detract from, rather than contribute to the member's understanding of their existing scheme benefits.