

## General Information

**Transvas Report: Annuity Interest Rate (AIR) vs Annuity Rate**

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## Is AIR the same as Annuity Rate?

It is a common misconception that the Annuity Interest Rate (AIR) is the rate used to convert pension funds into pension. This is not the case.

### **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.

### **Annuity Interest Rate**

The Annuity Interest Rate (AIR) is the assumed rate of interest used within the annuity rate calculation. All other things being equal, when the AIR goes up, annuity rates become cheaper (you can obtain more pension from the same fund value). The opposite occurs when AIR goes down.

## To put it another way...

The Annuity Interest Rate is a factor used to calculate annuity rates but is NOT the annuity rate itself. When AIR goes up, Annuity Rates get cheaper and vice versa.

For example, an AIR of 4.1% does not mean the member receives 4.1% of their fund as a pension.