

OACis Calculations: SERPS Loss Assessment

Sound methodology

OAC Actuaries and Consultants have drawn upon industry-leading experience of loss and redress calculation to develop a sound methodology which is being constantly evolved to include new scenarios and bases as they emerge, whether through precedent, experience of new cases, or regulatory guidance.

Developing a calculation basis requires substantial actuarial input and OAC is exceptionally well-placed to provide this input having been involved for many years in forensic calculation work and following industry-wide involvement and influence during the pensions, FSAVC, SERPS and endowment reviews.

Proven platform

The SERPS Loss Assessment calculator is built on the tried and tested OACis Calculations platform that has been in use across the industry for over 10 years. Key aspects of the platform include:

- rigid audit and case tracking controls;
- comprehensive management reporting; and
- full support for collaborative working.

The OACis Calculations platform provides a clear and simple input procedure with intelligent and context-sensitive help; input forms unfold progressively to request only the data that is still needed. Calculations can even be populated automatically with your own charges (including selecting from a menu of available products where appropriate). Partially completed cases can be stored to be continued later. All input data and results are stored for every run of every calculation and are accessible immediately through an on-screen list of all past calculations. When a calculation is used to make an offer, it can be marked to that effect.

Updates and enhancements are automatically delivered and installed seamlessly over a direct link to OAC's client portal and all calculator engine versions are retained for audit control such that any past calculation can be precisely reproduced and, if necessary, rerun on a newer version of the calculation engine or with amended inputs. Database reporting facilities can be used to prepare summaries that combine inputs and results from any number of calculations and a spreadsheet showing the full workings of a calculation, present or past, can be generated at the click of a button.

OACis Calculations can be used independently by a single user or collaboratively across teams and sites where necessary, including complete functionality for remote workers (typical data storage required per calculation is less than 1Kb) and outsourcers. The platform includes support for a doer - checker - verifier approach to calculating cases.

Core functionality

Prospective loss assessment, including:

- calculation of the reduction in additional state pension due to contracting out of SERPS (from April 1987 to April 2002) and State Second Pension (from April 2002) by means of an Appropriate Personal Pension (APP) from data entries of date of birth, gender, contracting out dates, NI Rebates and whether incentives applied 1988 to 1993;
- valuation of the reduction in additional state pension and state widow/er's pension (on death before and after retirement) using the FOS basis for future financial and mortality assumptions and proportions married dependent on the investor's marital status and on the actual age difference with spouse - or assumed age difference if spouse's date of birth is not entered;
- valuation includes allowance for future APP charges in the form of annual management charge as percentage of fund and regular policy fees that may be level or increasing;
- valuation takes account of any NI rebates not yet received which are estimated either by extrapolation from the latest year's rebate received, or from earnings entered, with allowance for APP investment charges;
- calculation of loss at the "as at" calculation date, being the valuation of the reduction in state pension less the APP fund value deriving from the NI rebates;
- future charges under the top-up redress policy (same as or different from the existing APP) are taken into account in calculating the redress sum required by way of fund top-up;
- redress is calculated as a percentage of either the APP fund value or an alternative fund value entered by the user;
- each tax year's NI rebate may be entered as a single figure or as separate figures eg rebates arrive at different times;
- the user can specify whether the NI rebates for the 1997/1998 tax year were paid late and therefore subject to interest addition on the Government's compensation basis;
- earnings data can be entered to obtain estimated NI rebates and a calculation of SERPS / S2P pension;
- a single report is produced containing the calculation input and output, and can be provided to the investor; and
- calculator recognises that State Pension ages will be greater than 65 after April 2024.

Actual loss assessment, including:

- if the APP fund has vested the loss is assessed "as at" date of vesting based on the projected reduction in state pensions at that time and on benefits (attributable to NI rebates) secured by the APP fund (taking account of annuity payment frequency, rate of escalation, guaranteed period, spouse's percentage and any lump sum benefit) using the FOS future financial and mortality assumptions at that time - or using FSA assumptions if vested before 01 October 2005;



- in the assessment of redress at the current "as at" calculation date, the past reduction in state pension is accumulated less the accumulation of benefits from the vested APP fund (attributable to NI rebates), both accumulations being on an interest basis of bank base rates, or bank base rates plus 1% or Court Rate as selected by the user;
- where a tax free lump sum has been taken from the vested APP, the calculation includes the option to value the tax gain on the lump sum at a specified tax rate selected by the user;
- any loss resulting from the accumulation of past benefits, less any gain from the calculation of the capitalised values of future benefits, is identified as redress payable as a lump sum;
- the capitalised values of the reduction in future pension from the state and the corresponding future benefits secured by the APP fund are established on the latest FOS assumptions;
- the loss, if any, from the comparison of the capitalised value of future benefits, less any gain from the accumulation of past benefits, is converted into an equivalent "redress" annuity commencing at the "as at" calculation date and payable in the same form as the vested APP annuity or payable in the form specified by user entries;
- if the APP fund has not vested but the investor is in receipt of state retirement pension the missing past state pensions will be accumulated with interest options as described above but otherwise the loss assessment will be as for prospective loss; and
- in place of state pension age, a later retirement date when the investor has or is expected to draw state retirement benefits may be entered and used in the calculation of the reduction in state benefits.

Licensing and pricing

OAC's named user client licences allow for the installation and use of OAC's software at the licence holder firm's own premises. Use of the software is restricted to the licence holder's own case calculations.

1. Site licence to include installation on one workstation and Lotus Notes licence for one workstation: £2,500*
2. Installation and registration of each additional workstation including Lotus Notes Licence: £300*
3. Monthly software access subscription (includes up to 5 workstations): £350

*Reduced by £100 where Lotus Notes licence is already in place.

Notes

- Generic enhancements and technical support are included.
- Monthly charge is increased by 20% for each additional workstation over and above 5.
- Charges are increased by 5% every September.
- We reserve the right to change our prices with at least 30 days' notice.
- Licences are non-exclusive and non-transferrable.
- The minimum subscription period is 12 months.
- The cancellation notice period is 1 month.
- VAT is payable in addition.

Training and technical referral service

On-site training can be purchased at £150 plus VAT per hour (disbursements chargeable in addition) for as many as 5 users per session. OAC provides a technical referral service for assistance with specific cases charged at £120 plus VAT per hour.

System requirements

OACis Calculations will operate on any Windows PC and requires:

- Microsoft Excel; and
- IBM Lotus Notes:
 - for existing full Lotus Notes users we will usually agree to cross-certify with your external server and deliver OACis Calculations across a scheduled secure replication link; and
 - for non-users of Lotus Notes OAC can provide licence cover for you for the duration of the service for £100 per installed workstation with Internet connectivity for secure updating.

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