

INITIAL REPORT

PREPARED FOR

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A CLIENT OF

David Knight

FROM

Knight Parker

RELATING TO BENEFITS IN THE

American Express UK Pension Plan – Pre 96, Post 97 section of the plan

ON

18th October 2016

Executive Summary

This Initial Report is designed to briefly consider and review the transfer option. This is purely intended as an initial review. We hope this will help you decide whether to undertake a more detailed investigation of the options. If you decide to proceed, David Knight of Knight Parker will need to undertake a more detailed assessment, which will meet their regulatory requirements as imposed by the Financial Conduct Authority.

Generally, it is accepted that transferring from a Defined Benefit Scheme or a Deferred Annuity, which is a type of Safeguarded Benefit, is unlikely to be suitable as the member is giving up secured guaranteed benefits in return for those which are dependent on investment return and annuity rates.

This report considers your benefits in the American Express UK Pension Plan – Pre 96, Post 97 section of the plan, which we have referred to as the Amex Pension Scheme within this document.

We understand that you wish to retire at age 57, which is earlier than the Amex Pension Scheme Normal Retirement Age of 65. We have therefore undertaken comparisons at both ages, to enable you to see the situation if you took the benefits when they are due or when you wish to draw them.

We understand that you have other pension benefits in a Small Self Administered Scheme with your husband that has a fund value of £358,229 which are not being reviewed at this time.

This report is not designed to meet Financial Conduct Authority requirements in relation to Pension Transfer Advice.

Suggested Action

Based on the information provided by David Knight from Knight Parker and obtained from the Amex Pension Scheme Administrators we have prepared the enclosed Transfer Analysis Report. In our view a transfer to a Personal Pension is a viable option at this time.

A Personal Pension is an individual pension plan that meets certain requirements set by Her Majesty's Revenue and Customs (HMRC). The Personal Pension can receive a transfer from the Amex Pension Scheme without incurring an unauthorised payment charge and without affecting Transitional Protection.

The benefits of a transfer can be summarised as follows:

Tax Free Cash

- Increase the potential Tax Free Cash
 - Increase the potential Tax Free Cash from £101,018 to £206,937 at the Amex Pension Scheme Normal Retirement Age of 65.

- Increase the projected Tax Free Cash from £68,756 to £140,063 available at your Intended Retirement Age of 57.
- In addition to the potential benefits identified above, you have an Additional Voluntary Contributions (AVC) Fund, which is valued at £67,126 currently. This is ignored in the analysis; because the basis is the same currently as it would be in the new plan i.e. those monies can provide a further lump sum Tax Free of up to 25% of the fund at retirement.

Death Benefits – pre retirement

- Increase the lump sum payable in the event of death before drawing benefits.
 - Enhance the potential lump sum Death Benefits immediately after transfer i.e. before drawing benefits to £483,967.
 - Increase the estimated lump sum Death Benefits immediately before retirement at age 65 i.e. before drawing benefits to £827,747.
 - Increase the estimated lump sum Death Benefits immediately before retirement at age 57 i.e. before drawing benefits to £560,252.
- This reflects the fact that the Amex Pension Scheme, pays no lump sum on death in deferment, whereas the alternative plan will pay the fund value available as a tax free lump sum.
- Again this would be supplemented by the Additional Voluntary Contribution Fund (£67,126.00), which would be payable as a lump sum both in the Amex Pension Scheme and the alternative Personal Pension in the event of your death before retirement.
- In addition to this lump sum Death Benefits, the Amex Pension Scheme will pay a 50% spouse's pension. That will be based on the pension due at date of leaving revalued until the date of death. That taxable income would be paid to Geoffrey without question as you are married.

Death Benefits – post retirement

- The benefits available from the Amex Pension Scheme will be restricted to the remainder of the 5 year guarantee.
- That will then be supplemented by the ongoing 50% spouse's pension, which would be payable to Geoffrey without any requirement for proof of dependence as you are married.
- In the alternative, the death benefit available after retirement will depend on the way in which you take your income.
 - If you did decide to purchase a single life annuity, there will be no benefits available to Geoffrey when you die.
 - Alternatively, a joint life annuity would provide an ongoing income tax free to Geoffrey on your death.
 - If you take up the Flexible Access Drawdown option, which is available from the alternative Personal Pension, your income level may be higher and on your death, Geoffrey or your Nominated Beneficiaries, will be able to receive the remaining fund. That fund would be payable tax free up to the Lifetime Allowance in the event of your death before age 75.

Other aspects

- Allow you to draw benefits as and when you wish, based on your future requirements, which will give you flexibility and control in retirement.
- Enable you to draw benefits at age 57, which we understand is what you wish to do.
- Give you more control over investments, allowing you to potentially improve your overall pension fund. You have a Balanced Attitude to Risk and a reasonable term to Retirement. Furthermore, you will almost certainly be using the Flexible Access Drawdown facility, when you do eventually take benefits, which means the fund will continue to be invested after retirement, which extends the term.
- The Amex Pension Scheme is in deficit, which undermines the security of the promised benefits. The Transfer Value represents reasonably good value. The potential benefits from the alternative generally match or exceed those projected from the scheme.

Summary

Overall then, a transfer will achieve the following, which includes your aims:

- Increase the Lump Sum Death Benefits.
- Improve the control over Death Benefits available to your beneficiaries, including allowing you to pass the fund to your children in the event of your death.
- Enable you to draw benefits at your Intended Retirement age of 57.
- Increase the potential retirement benefits, specifically higher Tax Free Cash.
- Undertake the Flexible Access Drawdown immediately, which will enable you to take the Tax Free Cash and draw as much of the remaining fund as taxable income, when you retire.
- Possibly consolidate this benefit with your other pensions.
- Control the impact of the Lifetime Allowance.
- Control investments and fund choices.

The above is a summary and each of the points will be expanded on throughout this report.

Financial Conduct Authority Authorisation

HDC is not an authorised firm and so cannot give advice to individuals. However, as Pension Transfer Specialists we work in conjunction with advisers.

If you wish to proceed with a full review, David Knight of Knight Parker will need to obtain more information about your personal circumstances and retirement aims, as well as your existing pension scheme benefits.

David Knight will then work in association with our other company Heather Dunne trading as HDIFA, which is an Appointed Representative of Financial Solutions Midhurst Limited (FSML) to prepare appropriate authorised advice.

The advice that David Knight of Knight Parker gives to individuals is overseen by the Financial Conduct Authority. Additionally the advice given by HDC's sister firm HDIFA is authorised.

The Financial Conduct Authority therefore indirectly monitors what we do via HDC and prescribes certain requirements for us to consider in our role. Furthermore we are directly monitored in relation to any advice given via HDIFA.

This report only considers the benefits you hold in the Amex Pension Scheme; any other benefits you may have will be reviewed separately. If you do decide you want to undertake a more detailed review, we will work closely with David Knight to ascertain significantly more information about you and extra details about the Amex Pension Scheme. In Appendix Two we have identified the information which has been assumed within the Transfer Analysis Report in relation to the scheme.

Tax Rules

The tax benefits referred to within this report are those which apply currently and their value depends on the individual circumstances of you, the taxpayer. This report and the enclosed information are based on our understanding of the current legislation governing pensions. This legislation is subject to constant change and so any future decisions will require a full review.

Lifetime Allowance - Background

Legislation limits benefits via the total value of promised pension benefits when they are taken. The overall limit, termed the Lifetime Allowance, is currently £1 million. If the value of your benefits exceeds that amount, the Lifetime Allowance charge will come into play. That would result in a tax charge at 55% on the excess fund used to provide benefits.

In addition, the associated Tax Free Cash is limited to 25% of the Lifetime Allowance i.e. £250,000. This figure is the absolute maximum currently allowable under HMRC rules. In practice, if the available Tax Free Cash exceeds that amount, the benefits will be limited accordingly and any excess will be used towards additional pension provision. This will of course be subject to the overall Lifetime Allowance Test, with tax at 55% due on any excess.

Lifetime Allowance - Testing

This test applies to the total value of pension accrued when you take benefits. In relation to Defined Benefit Schemes like the Amex Pension Scheme, this value is determined as 20 x the pension available. In the alternative Personal Pension, it is simply the fund value, which represents the transfer value plus subsequent growth less charges. This can therefore be very different.

If you retain the Amex Pension Scheme benefits, it is the projected pension at your Intended Retirement Age of 57, which becomes important for testing purposes. The Transfer Analysis Report indicates that will be £15,282, which means the value for Lifetime Allowance testing purposes is £305,640.

If you do transfer, the assessment will be based on the fund value when you eventually crystallise benefits. The Transfer Analysis Report suggests the value at your Intended Retirement Age of 57 could be £560,252.

Your other benefits, which are currently valued as follows will be payable in addition: -

- SSAS – Transfer Value £358,229

- AVC with American Express – Transfer Value £67,126

The combined Transfer Value for the above is £425,355. The value available when you intend to take benefits i.e. at 57 will again depend on subsequent growth and charges, but is likely be higher. Allowing for your other benefits, any growth thereon, this might affect you, and so it should be monitored with David Knight between now and when you draw benefits.

It is important to appreciate that no charge will be made on transfer, because that is not a Benefit Crystallisation Event i.e. a point at which benefits are tested against the Lifetime Allowance. When you do crystallise benefits e.g. draw the Tax Free Cash, the fund will be tested. By taking benefits in tranches you can defer the tax charge.

Additionally the charge is deducted from the fund by the provider when benefits exceed the Lifetime Allowance. This means that excess benefits will be paid as a Taxed Lump Sum. The impact of this is part of the longer term planning, which you will discuss with David Knight of Knight Parker over future years.

Our suggestion is based on the very brief facts supplied.

A formal recommendation will need to be prepared, if you decide to transfer benefits at this time.

1. Current Circumstances & Requirements

During your recent meetings and discussions with David Knight of Knight Parker, you confirmed your personal circumstances and requirements both now and at retirement. David Knight has passed some information onto us, as this is a vital part of the assessment we are providing. The most important aspect to any advice is considering what you require.

We have summarised the data we hold below:

- You are Domiciled in the UK and UK Resident for Her Majesty's Revenue & Customs (HMRC) i.e. tax purposes.
- You are 54 years old and your husband, Geoffrey, is one year younger than you.
- You have two children – Elliott (22) and Jessica (20) - who are financially dependent. Under HMRC rules, children are actually deemed to be dependant until age 23, irrespective of the actual position.
- You have no other financial dependants.
- You are currently employed by EasyJet and earn a salary of £170,000 per annum.

We have been advised that you are an Additional Rate Taxpayer as you earn over £150K. That level of income also means that you will have lost all of your Personal Allowance. We would suggest you talk to David Knight about appropriate planning in this respect.

- You have indicated that your employer doesn't provide you with a Company Pension Scheme. There is legislation in place now, which ensures all employees are to be given access to a Work Place Pension. The staging date i.e. the point at which an employer is required to arrange an Auto Enrolment Scheme depends on the size of the company and their PAYE Reference Number. Between now and 1st February 2018, the legislation will be introduced to all remaining companies which have not previously been affected.
- Attitude to Risk is a major factor to be taken into account when we are providing a transfer recommendation. David Knight has described your overall attitude in this respect as Balanced.
- You intend to retire at age 57, which is earlier than the Amex Pension Scheme Normal Retirement Age of 65. We have included an additional estimate of benefits at that alternative retirement age to assist you in considering your options.
- We understand that you are in excellent health and you do not smoke. You expect to remain healthy.
- We have been informed that you have very little in the way of other assets in addition to pensions, which will support you in retirement. Though your house is valued at £1.5m and your Portuguese home is worth £350,000, the funds would not be available to provide income unless you opted to downsize. In addition you have an ISA only amounting to £5,000.
- We have been advised that you have other pension benefits in a SSAS (£358,229), which will contribute to your overall retirement income. These benefits when combined with your other assets make the benefits with Amex Pension Scheme a smaller proportion of your final retirement planning resources than they might at first appear. However, they do still remain significant.

- When considering a Transfer from a Defined Benefit Scheme it is important to ascertain whether the individual has Capacity for Loss i.e. could manage financially, without recourse to the state, even if the benefits from the Personal Pension do not match those which could have been drawn from the ceding scheme.

If you do opt to transfer, your potential benefits will be affected by market fluctuations and you could possibly lose the entirety. If you retain the Amex Pension Scheme benefits, you have a level of security not offered in the alternative, which means you will receive some form of pension irrespective of market fluctuations.

In other words, the adviser needs to ensure the person has other assets, including pension provision, because the benefits from the alternative Personal Pension may not be sufficient.

When considering this aspect, we have taken into account the following points:

- o You have significant earnings.
- o Drawdown allows the funds to remain invested after retirement, which significantly extends the investment term.
- o You have significant other assets on which you could draw in retirement.
- o You have other pension benefits which will support you in retirement.
- o The Critical Yields quoted are relatively low, which means the growth requirement would be minimal.
- o You have a Balanced Attitude to Risk and so accept the possibility of short term losses, with the aim of longer term improvements with benefits.

All of these factors combined mean it is less of a concern if the benefits are lower from the Personal Pension.

- You have various reasons for considering a transfer; You wish to:
 - o Increase the potential Tax Free Cash.
 - o Increase your control and flexibility in retirement, by undertaking Flexible Access Drawdown, which is not available under the existing scheme.
 - o Improve control and flexibility.
 - o Improve the control over Death Benefits available to your beneficiaries, including allowing you to pass the fund to your children in the event of your death.
 - o Control the investments and fund choices.

Our initial assessment, as outlined in this report, is based on these facts and the information obtained from the Amex Pension Scheme Administrators. This is not authorised advice and will need to be reviewed and adjusted if you do decide to proceed with a full review. This Initial Report is simply intended as an outline of our deliberations and possible reasons for a transfer.

If you feel any of the statements, are inaccurate or incomplete, please let us know immediately.

2. Your Options

The table below is intended to summarise the differences between the current scheme structure and the Personal Pension alternative. This information is purely for guidance.

Current Scheme	Aspect	Personal Pension
The current lump sum death benefits under Defined Benefits Schemes are likely to be lower	Death Benefits	Usually, the entire fund can be paid as a tax free lump sum in the event of the member's death
Benefits are fixed at date of leaving and are increased from then until retirement	Pension	Benefits depend on the fund and annuity rates available at retirement
25% of the cost of the pension determined by Commutation Factors	Tax Free Cash	25% of the fund value, which is usually larger on transfer
The scheme decides when and how the member draws benefits	Choice	Client decides when to draw benefits; after age 57, before 75
Required to draw cash and a fixed guaranteed pension at retirement	Flexibility	Tax Free Cash and income can be adjusted to suit client
Scheme investments chosen by the Trustees to meet benefit costs	Control	Client controls investments and provider choices
Most non statutory schemes are underfunded; benefits are not guaranteed	Long Term	Benefits are directly reliant on assets and growth
Pension Protection Fund usually 90% of capped benefits	Security	Financial Services Compensation Scheme 100% with no cap

3. The Amex Pension Scheme Benefits

In the previous section we outlined the major structural differences between the current Defined Benefits Scheme i.e. the Amex Pension Scheme and the alternative Personal Pension and how that can affect the format of benefits available. We are now going to examine the benefits you could obtain from the Amex Pension Scheme. The remainder of the report then considers the value available on transfer and the differential between these benefits and the alternatives.

The benefits in the Amex Pension Scheme are determined at the date you left service (30th September 2002), based on your pensionable earnings and pensionable service. Those benefits will incorporate certain amounts of dependants' benefits and allow for certain levels of indexation. All of these aspects are determined by the scheme rules and are specific to each and every scheme. The security of those benefits i.e. the ability to actually pay them is dependent on the funding position of the scheme and ultimately the sponsoring employer's trading position.

Usually, the benefits in a Defined Benefit Pension Scheme are determined at the date you left service (30th September 2002), based on your pensionable earnings and pensionable service. Those benefits would incorporate certain amounts of dependants' benefits and allow for certain levels of indexation. All of these aspects are determined by the scheme rules and are specific to each and every scheme. However, the Amex Pension Scheme is not a final salary scheme, but is a Cash Balance arrangement, which accrues a fund to provide benefits of 15% of salary for each year of service. The final pension available from that Cash Balance fund is determined by applying a conversion factor. Fortunately in this case, the Amex Pension Scheme Administrators provided the pension based on those conversion factors, which are the figures we have used within this report.

For your ease, in the comparative benefit section of this report (Section Seven) we draw together the figures detailed in that Transfer Analysis Report. If you want more information please see the Transfer Analysis Report attached at Appendix One.

The potential benefits from an alternative Personal Pension are entirely dependent on the fund acquired and the annuity rates available when you decide to draw benefits. There is no guarantee of the level of benefits available.

By moving from the current scheme to a Personal Pension you take on significantly more risk and responsibility in relation to your eventual retirement income. In return you gain more control and flexibility and the potential to increase the benefits which will become available to you and your Nominated Beneficiaries or dependants.

Protected Early Retirement Age

In the past, it was possible for some individuals to draw their benefits at age 50. With effect from April 2010, the normal minimum pension age was increased to 55. On occasions, members retain the right to take benefits at age 50 from their current occupational schemes. This is termed a Protected Early Retirement Age. This arises from the fact that they had the contractual right in December 2003 before the rules changed.

We have been advised by the Amex Pension Scheme Administrators, that you are one of those people who has a Protected Early Retirement Age. As a general rule, when you transfer to a Personal Pension you will not be able to take benefits before age 55. It is potentially possible to preserve the right to transfer and retain the option of taking benefits from age 50. If those precautions are not taken you will not be able to draw benefits from the alternative Personal Pension before age 55.

This means you could take benefits now as you are already passed the age of 50. However, this is somewhat academic as you will be 55 next October.

Additionally, we understand this is not a particular concern because you have said you do not wish to draw benefits until you are 57.

Transfer Analysis Report

In view of the differing benefit structure between schemes like the Amex Pension Scheme and the alternatives, advisers are required to undertake a comparison of potential benefits based on a series of prescribed assumptions. That is termed a Transfer Analysis and results in the Report which is enclosed at Appendix One.

The Transfer Analysis Report compares the Amex Pension Scheme with a generic Personal Pension. At this stage we are simply examining the legislative differences and how that might affect you. Any subsequent assessment will include details of a specific recommended plan and consider the effect of charges.

To enable us to prepare the Transfer Analysis Report we have ascertained what information we can from the details supplied by the Amex Pension Scheme Administrators, together with the details regarding yourself, summarised in Section One.

Service Details

In the Transfer Analysis Report we confirm the benefits relate to your service with American Express between 16th October 1989 and 30th September 2002. Though we understand you joined employment on 16th October 1989, you did not join the scheme until 1st November 1992.

We have been advised by the Amex Pension Scheme Administrators that your Final Pensionable Salary was £94,800. This is unlikely to be your entire income, but is the figure on which the pension benefits should be based. We would normally complete a manual check of your benefits to ensure the pension being quoted is correct. However, this arrangement is like a Cash Balance Arrangement. This means we are unable to manually calculate your deferred benefits at date of leaving and so check whether or not they appear correct.

Assumptions Made

As the calculations involved are extremely complex and the assumptions required are prescribed by the Financial Conduct Authority, this analysis is undertaken using a specially designed software programme. As with all such systems it has its own foibles. The system we use, which is provided by O&M systems, is designed for those with a relatively high level of pension's technical expertise; it is somewhat cumbersome and requires answers to some

questions which few Scheme Administrators understand. However, we believe used correctly it is more accurate than other such systems available.

We have not previously reviewed the Amex Pension Scheme. We have therefore based this report on the information included within the Transfer Pack supplied by the Scheme Administrators and any additional information we have been able to ascertain at this stage.

Where necessary we have made appropriate reasonable assumptions regarding the scheme benefits. Those assumptions are made in two parts; those which form part of the software programme and those made specifically by us, when entering data.

1. Validation Sheet: The suppositions made within the software programme are listed on the Validation Sheet which is attached at Appendix Two. Please be assured that we have also reviewed those assumptions and believe them to be reasonable.
2. Our Assumptions: We have not been obliged to make any assumptions to enable us to prepare the Transfer Analysis Report, because our scheme record is reasonably complete.

Our expertise in this area gives us sufficient knowledge of normal practice alongside the legislative requirements to make appropriate suppositions when data is unavailable.

Additional Voluntary Contributions

In addition to the main scheme benefits you have Additional Voluntary Contributions which relate to your personal contributions.

That fund can provide extra lump sum death benefits, determined by the value of the fund. Furthermore, the fund can be used to provide Tax Free Cash and thereby reduce the amount of pension you need to commute at retirement. Alternatively, you may take a further 25% of the fund as Tax Free Cash when you retire. The current value of the fund was £67,126.00 as at 31st July 2016.

The Amex Pension Scheme Administrators have advised that you have the option of investing into a total of 14 alternative funds with Prudential.

We understand you have chosen to invest in With Profits and Discretionary funds and we have summarised the information we have obtained about them below:

Fund Name	Launch Date	Fund Size	Performance	Benchmark	AMC
With Profits	Not Disclosed	£63.5m	Not Disclosed	Not Disclosed	Not Disclosed
Discretionary Fund	6 th April 2001	£526.72m	7.1% p.a.	6.9% p.a.	0.5% p.a.

The details above have been extracted from the factsheets for each fund.

- The launch date is relevant as it indicates how long the fund has been running and therefore the potential history of returns.

- The fund size gives us a clue as to the funds ability to diversify investments or manoeuvrability in the market.
- The performance figures shown are the annualised figures over the last five years to September 2016.
- The performance exceeds the benchmark for the Discretionary Fund.

With Profits

As you are invested in the With Profits Fund the value that you would receive at retirement from your existing policy contains an element of guaranteed bonuses that cannot be removed once granted.

Funds invested in a Unit Linked policy are valued based on the market value of the underlying investments. Therefore policy values go up and down in line with changes to the share prices of the underlying investments from time to time.

In contrast, a With Profit policy tends to “smooth” the returns achieved by the underlying investments. This is done by the Company Actuary declaring annual bonuses, taking into account the returns received. In the good years bonuses declared tend to be less than the underlying increase in the value of the investments. This allows the Company Actuary to reserve some or all of those additional undeclared gains for use in bad years. When the value of the underlying investments falls, the provider can still pay a bonus. This avoids large swings in bonus levels from year to year if possible.

The main advantage of With Profit policies is that the smoothing process means that the value of the policy tends to be less volatile than unit linked policies, particularly in times of stock market volatility.

4. Transfer Value

The Transfer Value being offered by the scheme should reflect the cost of those promised benefits. Our analysis is, amongst other things, intended to assess whether the Transfer Value being offered is reasonable.

The Amex Pension Scheme is offering the sum of £483,966.77 in lieu of your promised benefits under the scheme, if you decide to take a transfer.

This Transfer Value figure is guaranteed until 31st October 2016. If the Amex Pension Scheme receives all the required documentation by that date they are obliged to pay that sum.

Alongside the Amex Pension Scheme main scheme benefits you have an Additional Voluntary Contribution (AVC) fund, which was valued at £67,126.00 on 31st July 2016. The two aspects of your benefits need not be transferred together. The actual fund transferred will depend on the underlying investment value at the date the Amex Pension Scheme receives the request to disinvest. This fund produces benefits in addition to those examined in the Transfer Analysis Report and is subject to entirely different considerations. The benefits ultimately available from it are subject to the same concerns as the Personal Pension alternative i.e. investment return and annuity rates at retirement.

Evaluating that Transfer Value

The sum offered by the Amex Pension Scheme in lieu of your Defined Benefits, which is officially termed the Cash Equivalent Transfer Value, represents the actuarially calculated cost to the scheme of providing that promised pension. The figure offered is therefore dependant on the assumptions used by the Scheme Actuary in assessing that cost. We hope the following summary of the calculation process may make this a little clearer. You will appreciate this is a simplified summary, and in practice each step has numerous subsections to it.

To calculate the cost of providing an individual's benefits, the administrators, on behalf of the Scheme Actuary:

1. Calculate the member's deferred pension at date of leaving.
2. Revalue that pension until the scheme Normal Retirement Age.
3. Calculate the cost of that pension at Normal Retirement Age.
4. Discount that back to the current day, based on expected Investment Return.
5. This is the Cash Equivalent Transfer Value.

The only fixed aspects are the member's benefits at date of leaving and the Scheme Normal Retirement Age.

Everything else is subject to assumptions in relation to Retail Prices Index, Consumer Prices Index, Interest Rates at retirement, Gilt costs at retirement, longevity, morbidity, age, marital status and numbers of dependants, investment return, future regulation and legislation, current Gilt returns. A slight change in any one of these assumptions will have a material effect on the Transfer Value.

The Scheme Actuary will set a Transfer Value calculation basis for the scheme. It is not undertaken individually, but for the scheme as a whole; hence the need for assumptions regarding marital status etc. Each Actuary is professionally responsible to the Scheme Trustees, but can set their own assumptions within parameters outlined in guidance from their Actuarial Body. In other words, no two actuaries will use the same two sets of assumptions for any one scheme and indeed one actuary will set differing presumptions for two schemes.

The Actuary will fully review the basis set for the scheme every three years when undertaking the Actuarial Valuation Report. Each year an interim review of the basis will form part of the preparations for the Trustees' Annual Report to members. This review will probably consider any changes in guidance from the Actuarial body alongside alterations in regulations and legislation. That may result in amendments to certain assumptions or processes.

Additionally, the Actuary will set adjustments based on current Gilt yields and the like, which will alter the assumptions marginally every month. Thus the actual Transfer Value available is a variable sum.

Schemes like the Amex Pension Scheme are obliged to guarantee the Transfer Value figure for three months. This requirement is imposed to give individual members a chance to seek advice and assess the alternatives. This Initial Report is designed as a start on that advice process.

5. Critical Yield

We have explained that the Financial Conduct Authority requires advisers to undertake a Transfer Analysis Report comparing the benefits promised under the Amex Pension Scheme with those potentially available from the alternative Personal Pension.

Comparative Assumptions

In the previous section we explained that the Actuary will set assumptions appropriate to the Amex Pension Scheme and those will be adjusted regularly, probably every month.

To ensure the comparisons advisers undertake are consistent the Financial Conduct Authority prescribes the assumptions to be used within the Transfer Analysis Report.

Those assumptions are reviewed periodically; 2015 saw the introduction of a monthly review of the lynchpin assumption the Annuity Interest Rate, which is the assumed underlying interest rate at retirement. The same assumption applies irrespective of whether an individual is due to retire in two or twenty years' time.

The assumptions used within the Transfer Analysis Report are detailed therein. That summary also confirms the Annuity Interest Rate and expected growth rate which are to be included in the Personal Pension projections. The annuity interest rate used within the estimates for the alternative plan and the assessment within the Transfer Analysis Report need not be the same. Even when the two Annuity Interest Rates are the same within the Transfer Analysis Report and the insurance company illustrations other aspects of the underlying illustrations differ, the two results will not be comparable.

A lower Annuity Interest Rate means that annuities are more expensive and so will reduce the projected pension from the Personal Pension and increase the associated Critical Yield calculated within the Transfer Analysis Report.

In other words, the Financial Conduct Authority sets the assumptions we use in the analysis, which are identical for each and every case, whereas the Actuary chooses his own specific to the scheme or provider he is advising.

Calculation Method

The Transfer Analysis System uses a similar process to assess the Transfer Value as the Actuary uses to calculate it. The process used can be described as follows:

1. Take the member's deferred pension at date of leaving.
2. Revalue that pension until the scheme Normal Retirement Age.
3. Assess the cost of providing that pension at Normal Retirement Age.
4. Calculate the growth required on the Transfer Value to arrive at that cost.
5. That is the Critical Yield.

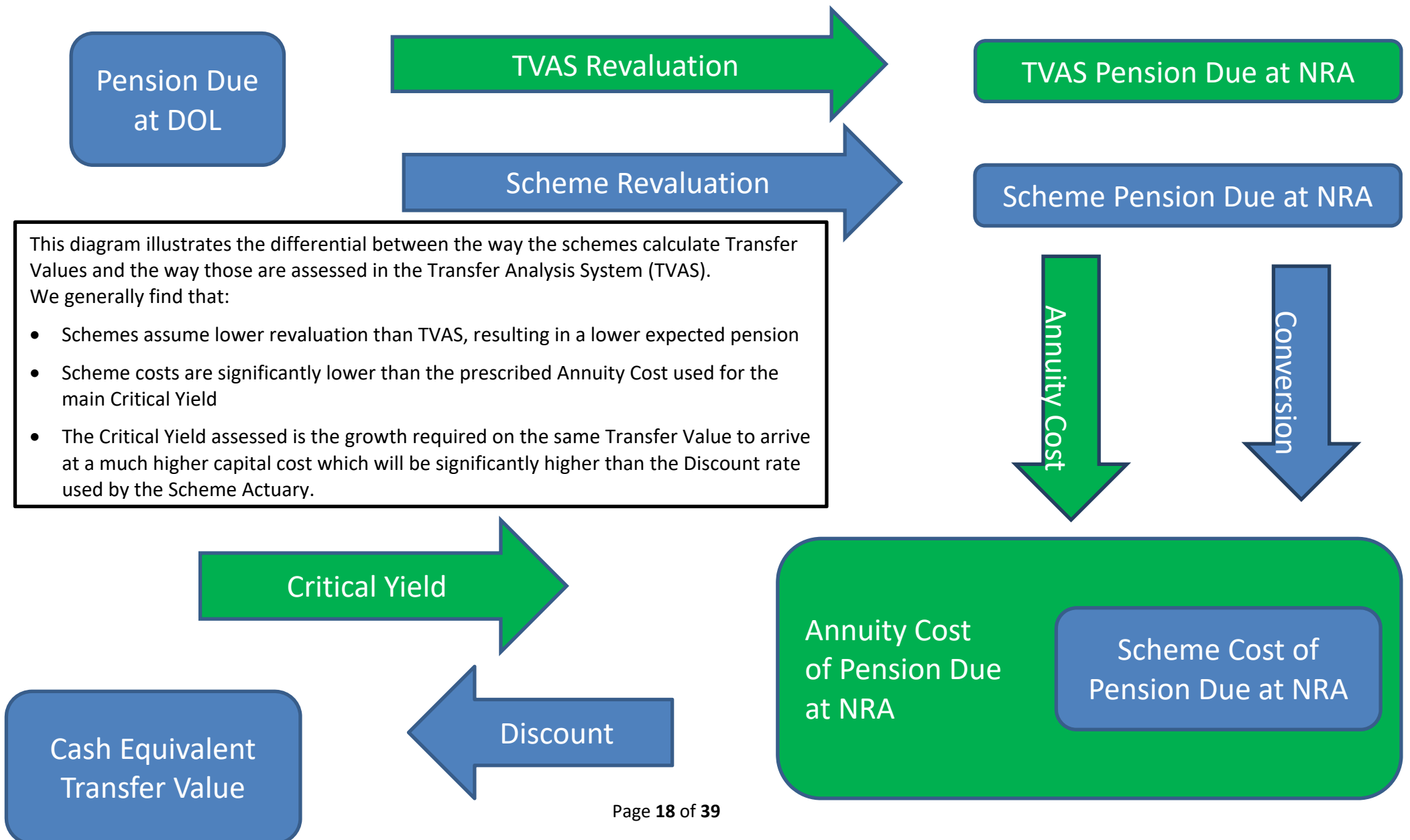
Following the changes to legislation effective 6th April 2015, which are generally termed Pension Freedoms, individuals may opt to draw the entirety of their pension fund, rather than purchase an annuity, though they should be aware that any monies over and above the Tax Free Cash will be taxable at their highest marginal rate. In practice, most individuals will actually wish to draw the benefits, as an income to support their needs in retirement, which is what the fund was originally designed for. Obviously, the sustainability of that depends on the income drawn, the capital held and the investment return achieved upon it.

There are several differing Critical Yields included in the Transfer Analysis Report. Those on page four are based on the premise that the funds in the Personal Pension would be used to purchase an annuity. That is because buying an annuity is the closest alternative to the pension currently promised under a Defined Benefit Scheme. We will describe the individual Critical Yields in more detail in the next section, which examines the comparative Critical Yields.

On the next page we set out a diagram to illustrate the differential between the way the Amex Pension Scheme calculates the Transfer Value and how the Transfer Analysis System arrives at the Critical Yield based on the premise of purchasing an annuity to match the scheme benefits. That explains why, in our view, the Critical Yield calculated overstates the growth actually required in the Personal Pension to match the benefits promised by the Amex Pension Scheme. This means the Critical Yields should not be taken to represent the actual level of investment return required, but they are indicative of the rate of growth needed.

Calculation of the Critical Yield

*Initial Report for Lisa Jones
In relation to benefits in the Amex Pension Scheme*



6. Comparative Critical Yields

Page four of the Transfer Analysis Report sets out the various Critical Yields based on annuity purchase. These are supplemented by alternatives using Drawdown in various guises on pages six, and seven at age 65 and nine and ten at age 57, which can be summarised as follows:

Benefits at Normal Retirement Age (65)		
Type of Critical Yield	Full Pension	Cash & Reduced Pension
Full Scheme benefits at age 65 by annuity	3.4%	1.5%
Single Life Level Pension at age 65 by annuity	-0.1%	1.8%
Full Scheme benefits at age 65 by UFPLS	0.6%	0.2%
Full Scheme benefits at age 65 by Drawdown	0.7%	0.2%
Pension Protection Fund at age 65	1.1%	0.7%

Benefits at Intended Retirement Age (57)		
Type of Critical Yield	Full Pension	Cash & Reduced Pension
Full Scheme benefits at age 57 by annuity	5.0%	-1.2%
Single Life Level Pension at age 57 by annuity	-9.2%	-13.7%
Full Scheme benefits at age 57 by UFPLS	0.2%	-0.6%
Full Scheme benefits at age 57 by Drawdown	0.2%	-0.6%
Pension Protection Fund at age 57	6.1%	4.7%

Notes:

Each of these figures will be explained and examined in more detail in the following sections of this chapter of this Initial Report. More information can be gained by examining the Transfer Analysis Report attached at Appendix One from which these figures are drawn.

Critical Yield at Normal Retirement Age (65) by Annuity

The most significant Critical Yield is the one based on full benefits at Normal Retirement Age (65) based on annuity purchase. The figure quoted needs to be considered in the light of our detailed explanation as to how it is calculated.

In consideration of our earlier comments around how this figure is calculated the Critical Yield figure of 3.4% for the full benefits at Normal Retirement Age is extremely low and as such suggests the Amex Pension Scheme have granted a very generous Transfer Value.

Full Scheme Benefits, as Against Single Life Level

The Full Scheme Benefits Critical Yield of 3.4% is very different from the Single Life Level Critical Yield of -0.1%. This reflects the difference in the two basis used for these calculations. The first Critical Yield includes full benefits in the Amex Pension Scheme whereas the second excludes any dependant's benefits and indexation due and so is much cheaper.

Certain factors will skew these figures making the Critical Yield on full benefits higher (3.4%) than we would expect as compared with the Single Life Level Rate (-0.1%).

- Most schemes assume the husband is three years older than their counterpart. If, for example, the husband is less than three years older, than a female member it will be more expensive to provide for him and so the full Critical Yield will be disproportionately higher than the single life rate.
- If the spouse's or dependants' benefits promised by the scheme are larger e.g. 2/3rds as against 50% that will increase the cost and so make the full Critical Yield higher as compared with the single life rate.
- If the scheme provides generous indexation i.e. increases to pensions in payment which exceed the statutory requirements that will again cost more and make the full scheme benefits Critical Yield higher as compared with the single life level rate. Escalation is very expensive and will affect the differentials in Critical Yield more than most other factors.
- Short terms to when benefits are due i.e. to Normal Retirement Age or when an individual wants to draw benefits, which we term their Intended Retirement Age will disproportionately increase the Critical Yields and any differentials between them.

Overall then a large disparity between Critical Yields on full benefits (3.4%) and single life level benefits (-0.1%), will therefore usually reflect husbands that are more than three years older than their wives, generous spouse's benefits, substantial indexation, or a short period to the Normal or Intended Retirement Age. We will examine the specifics in more detail later in this chapter.

Other aspects

When you do actually draw benefits, it is unlikely you will use the fund to purchase an annuity. We expect you to undertake Drawdown which will allow you to draw the income as and when you need it from the fund. This enables you to retain the fund invested for much longer, even potentially indefinitely. This option will be examined more in the next section.

Critical Yield at Intended Retirement Age (57) by Annuity

The Critical Yield calculation based on matching benefits by annuity purchase at a retirement age of 57 is on exactly the same principle. The differential relates to any reduction applied within the Amex Pension Scheme for drawing benefits early and the subsequent need to pay them for longer. That means drawing benefits earlier is more expensive for the scheme. Hence the schemes usually apply an Early Retirement Factor.

This usually results in a higher Critical Yield on early retirement, reflecting the fact that matching the benefits is more expensive via the alternative. The alternative has a shorter period to grow and the annuity cost is higher at an earlier age.

In the absence of actual Early Retirement Factors the Transfer Analysis System assumes 4% per annum applies resulting in a reduction of 32% at your Intended Retirement Age of 57 as against the Normal Retirement Age of 65. The total reduction applied is 26.1% which is lower than the assumption. The scheme is therefore being more generous than the norm.

The Report indicates a Critical Yield which is higher at 5% at 57 compared with 3.4% at age 65. This suggests the benefit being provided by the Amex Pension Scheme on early retirement is significantly more expensive via the Personal Pension, reflecting the shorter term involved and the higher cost of buying annuities earlier. This is despite that high reduction on early retirement and reflects the fact the Amex Pension Scheme will pay the benefits out of the fund, whereas within the Transfer Analysis, it is assumed that the Personal Pension will purchase an annuity.

Critical Yield and Tax Free Cash by Annuity

The Transfer Analysis Report also quotes a figure assuming you take the maximum Tax Free Cash. This is lower, reflecting the fact that the cash is cheaper to match. In other words, the pension being commuted for cash is more costly in the alternative (based on the annuity rate used in the analysis) than the cash being offered.

In practice, the Amex Pension Scheme uses the Commutation Factor to assess the amount of pension foregone in relation to the Tax Free Cash. The Actuary's aim will be to make the exchange on a nil cost basis i.e. granting cash which is neither more nor less expensive than pension. The Actuary may then agree with the Trustees to adjust that factor to encourage members to take Tax Free Cash. That means the Amex Pension Scheme will accept the short term hit i.e. the immediate cost of Tax Free Cash to reduce long term liabilities. Note the higher the Commutation Factor, the larger the residual pension too.

The Critical Yield required to match the Tax Free Cash and residual pension available at the Amex Pension Scheme Normal Retirement Age of 65 is lower at 1.5% as against that required to match the full benefits (3.4%). The same applies in relation to your Intended Retirement Age of 57 when the comparison is -1.2% to match Tax Free Cash and residual pension as against 5.0% to match full pension. This simply confirms that the annuity cost being prescribed by the Financial Conduct Authority is higher than that actually used within the scheme. This supports our view that the costs assessed within the Transfer Analysis Report and the resulting Critical Yields are overstated.

Single Life Level Pension by Annuity

The Transfer Analysis Report includes a further Critical Yield termed a Single Life Level Pension as compared with that termed Currently Classified as Joint Life, which matches the full scheme benefits.

This growth rate gives us additional information regarding the extra cost of providing for benefits like spouses and dependent's pensions alongside indexation. We commented earlier on the generic differences when considering the Critical Yield in relation to full benefits. As promised, we will now examine the impact on you personally.

Single Life at Normal Retirement Age (65)

The important thing for you to appreciate is the differential between the Single Life Critical Yield and that based on full benefits.

In relation to the Full Critical Yield, the Transfer Analysis Report quotes an overall figure of 3.4% and two further numbers which combined equate to that total figure. The first of the two is the Critical Yield to provide a level pension, i.e. the cost of the basic pension itself, which is 0.7%. The second figure, which is the effect of pension increases and guarantee period (2.7%) is basically the cost of indexation i.e. increases in payment.

With regard to the Single Life Critical Yield, again, the Transfer Analysis Report quotes an overall figure of 2.4%, which is comprised of -0.1% in relation to the basic pension and 2.5%, in respect of indexation.

The differential between the single life level figure (-0.1%) and the joint life figure (0.7%) is the cost of providing an ongoing pension for Geoffrey. That is 0.6% in your personal case.

The Single Life Level Rate of -0.1% per annum stated is negative and much lower than the standard Critical Yield of 3.4% at age 65. That confirms that the Transfer Value could provide the pension promised by the Amex Pension Scheme immediately from a Personal Pension via the Drawdown option.

Single Life Level Critical Yield Compared with Full Critical Yield

As noted earlier the differential between the full Critical Yield and the Single Life Level Rate reflects the cost of indexation and the period to retirement together with the provision for dependants.

Indexation

The cost of indexation is a significant factor in the differential. That is determined by the Scheme Rules as against your personal situation. In short, the cost of indexation is substantial and so is frequently the main cause of the difference between the two Critical Yields. High escalation will increase the differential.

The Amex Pension Scheme offers indexation in accord with the Statutory Requirements for pre'97 benefits, which is nothing. In respect of benefits accrued before April 1997 they offer indexation in line with RPI/5% per annum, which is higher than the Statutory Minimum Requirement, which means the scheme is more generous than the norm.

Spouse's or Dependant's Pension

In the Transfer Value calculation, the Scheme Actuary will generally assume the wife or female dependant is three years younger than a male member or husband and that 2/3rds of members are actually married, or have a partner. Any individuals who do not match that standard will therefore have a larger differential between the joint life and single life figures. That differential will be exacerbated if the scheme offers high dependants benefits.

The Amex Pension Scheme offers the same income based death benefits in deferment and retirement i.e. a 50% Spouse's pension.

Geoffrey is only one year rather than three years older than you, which means providing an ongoing pension for him will be more expensive than the norm. That should result in a higher than standard differential between the Single Life Level Rate and the Full Critical Yield reflecting that extra cost.

Single Life Level Pension at Intended Retirement Age of 57

Just as with the Single Life Level Rate at Normal Retirement Age, the expectation is that this Critical Yield will be lower than the Full Critical Yield at the equivalent date because it excludes the cost of dependant's pensions or indexation.

We have therefore considered the comparative Single Life Level Rates, which should simply reflect the differential in treatment between the Normal Retirement Age of 65 and your Intended Retirement Age of 57. The advantage is that these rates ignore any skewing in relation to the cost of indexation or the provision of spouse's or dependent's pension and therefore give us a clearer test of the impact of drawing benefits at a different age.

The negative Single Life Level Rate on Early Retirement (-9.2%) indicates the Transfer Value quoted is more than sufficient to provide the pension promised by the Amex Pension Scheme from a Personal Pension at your Intended Retirement Age of 57. It is much lower than the -0.1% calculated at the Normal Retirement Age of 65. This could suggest that the Early Retirement Factors being applied are penal and that the Amex Pension Scheme are disproportionately reducing the benefits due. In practice, this probably is because the alternative is more expensive rather than that the Amex Pension Scheme is providing less than it should at 57. This is because the scheme will pay the benefits out of investment income rather than purchase an annuity. The fact the difference is so large does mean that the Early Retirement Factors may also be deemed excessive.

Matching Benefits via Flexible Access Drawdown

Within the Transfer Analysis Report on pages six and seven and nine and ten, there are various tables examining cash flow modelling using Flexible Access Drawdown in two guises (UFPLS & Full Drawdown) to draw benefits at both the Amex Pension Scheme Normal Retirement Age of 65 and the Intended Retirement Age of 57.

Background

Within the table at the start of this chapter of this Initial Report, we quoted figures, extracted from those tables using the Critical Yield Headings Full Scheme Benefits at age 65 by UFPLS and Full Scheme Benefits at age 65 by Drawdown. We are going to explain a little more about the background to those calculations, so that hopefully you can use the information generated to assist in your decision.

The starting point is to explain the term UFPLS, which stands for Uncrystallised Fund Pension Lump Sum. This was a new term introduced as part of the Pension Freedom Legislation, which basically replaced what was previously called Phased Retirement. It simply means that each time a portion of the fund is crystallised i.e. benefits are drawn, 25% is paid out tax free and the remaining 75% is treated as taxable income. In the past, of course only part of that 75% remaining fund could be drawn as taxable income, whereas now the entire pot can be taken at one time.

Drawdown as assessed in the cash flow modelling tables included within The Transfer Analysis Report is the other extreme of Flexible Access Drawdown. Within these tables, it has been described as taking the entirety of the Tax Free Cash and no taxable income until the Tax Free Cash has been exhausted.

In practice, it's much more likely you would take sufficient Tax Free Cash to meet any immediate capital expenditure requirements at retirement and then use the remainder to supplement taxable income in the most tax efficient manner. This requires individual focused financial planning at retirement; which David Knight of Knight Parker would be able to provide.

The purpose of the tables included within the Transfer Analysis Report is not to replace long-term advice. They are intended to better enable you to assess the growth rate required to match the scheme benefits via Flexible Access Drawdown, as against the purchase of an annuity. It is an attempt to make the Transfer Analysis Report more relevant, allowing for the increased flexibility offered via the Pension Freedom Legislation. Hence, it examines the two extremes within the many options encompassed by the term Flexible Access Drawdown.

In relation to all of the tables, it is important to appreciate that they are based on the UK average life expectancy (source: Office for National statistics), which indicates that females of your age will survive to age 89 and males will reach age 86. On each of the tables, that is the age highlighted in grey and, based on the intermediate growth rate, is the point at which the annual scheme pension after tax reduces from the level payable to you, reflecting the proportion which would be payable to a spouse or dependant.

Drawing Income Only Cash Flow Modelling From Age 65

The two tables on page six of the Transfer Analysis Report examine the option of taking full pension, and no Tax Free Cash, firstly using UFPLS and secondly Full Drawdown. The matching tables on page seven consider the situation if you took the maximum Tax Free Cash available from the Amex Pension Scheme and used the remaining funds available from the Personal Pension to match the residual pension which would be provided by the scheme. In other words, the first pair of tables provide the figures for the full pension, the second for the Tax Free Cash and Residual Pension.

The first table on page six indicates the growth rate of 0.6% would be sufficient to enable the fund to provide a pension matching that due from the Amex Pension Scheme after tax, allowing for combination of drawing Tax Free Cash and taxable income from the alternative Personal Pension.

The second table on that page results in a Critical Yield of 0.7% and assumes you will draw 25% of the initial fund as Tax Free Cash, using that to provide the income, which would have been paid from the Amex Pension Scheme after tax. Once the Tax Free Cash has been exhausted, you would then draw taxable income from the fund.

This second Critical Yield (0.7%) is higher than the first (0.6%) due to the differential in tax treatment, because you would not be using the Tax Free Cash to supplement taxable income in the later years. This is because you would have exhausted it at outset.

We have referred you to the Intermediate rate of 5% per annum, which is of course not guaranteed. Both tables also provide additional information regarding the potential benefits assuming a lower and higher growth rate. The tables also assess the probability of exhausting the fund before your demise. In practice, each and every figure is based on numerous assumptions and so these can only be taken as a guideline.

Both the growth rate of 0.6% and 0.7% seem reasonable as compared with the Critical Yield based on providing the full pension via annuity purchase of 3.4%.

It is important to appreciate that the Critical Yield for providing the full pension via annuity purchase (3.4%) includes the cost of incorporating indexation and spouse's pension as described earlier. If you did opt to use Flexible Access Drawdown to provide your benefits in retirement, the residual fund could be paid as a lump sum tax free, up to the remaining Lifetime Allowance, allowing for your crystallisations, to your Nominated Beneficiaries. That may or may not be more beneficial in terms of your long term financial planning. It is a matter to discuss with David Knight in due course.

Drawing Tax Free Cash and Residual Income Cash Flow Modelling from Age 65

Turning now to page seven of the Transfer Analysis Report, which includes tables, assuming benefits are drawn using UFPLS and Full Drawdown to match the Tax Free Cash available from the Amex Pension Scheme and the estimated residual pension at the Normal Retirement Age of 65.

The introductory paragraph to the first table confirms that because only 25% of the fund drawn from the Personal Pension is treated as Tax Free Cash and the remainder is taxable income, a larger initial amount has to be drawn. The sum required to provide a match for the Tax Free Cash available from the Amex Pension Scheme of £101,018 is £152,480. This is where using Full Drawdown might make more sense, because the cost could be matched with Tax Free Cash available from the Personal Pension without having to draw taxable income.

In practice, generally, the Tax Free Cash available from the Personal Pension is higher than the estimated sum which can be taken from the scheme. Simply matching Tax Free Cash available from the Amex Pension Scheme is not taking advantage of that additional flexibility. However, this cash flow modelling is purely intended to assess the cost of matching the benefits, not to consider altering the shape or format, although that may make it more suitable for your needs.

It is important to appreciate these Critical Yields are designed to enable you to assess the value of the benefits within the Amex Pension Scheme which you would be foregoing in the event of a transfer. Assessing the suitability of Flexible Access Drawdown as against purchase of an annuity is something which will be considered by you and David Knight, when you do actually decide to take benefits.

The Critical Yields quoted to match the Amex Pension Scheme Tax Free Cash and residual pension using UFPLS and Full Drawdown at the scheme Normal Retirement Age of 65 are both 0.2% per annum. These compare very favourably with the Critical Yield based on purchasing an annuity to provide the residual pension having taken the Tax Free Cash of 1.5%.

Drawing Income or Tax Free Cash and Residual Income Cash Flow Modelling From Age 57

The figures on page 6&7 are supplemented by those on pages 9&10, which confirmed the Critical Yield required to match the prospective benefits from the Amex Pension Scheme at your Intended Retirement Age of 57 via Flexible Access Drawdown.

The Critical Yields quoted to match the Amex Pension Scheme Full Pension plus Tax Free Cash and residual pension using UFPLS at your Intended Retirement Age of 57 are both calculated as 0.2% per annum. These compare very favourably with the Critical Yield based on purchasing an annuity to provide the Full Pension (5%) or residual pension having taken the Tax Free Cash of -1.2%.

The Critical Yield to match the Amex Pension Scheme Full Pension or Tax Free Cash and residual pension using Full Drawdown at your Intended Retirement Age of 57 are both calculated as -0.6%. These compare very favourably with the Critical Yield based on purchasing an annuity to provide the residual pension having taken the Tax Free Cash of -1.2% or that for the Full pension of 5.0%.

Security and the Pension Protection Fund

The benefits provided by the Amex Pension Scheme are not guaranteed, but they are secure, because they are underpinned by the assets within the scheme itself, the sponsoring employer and also, the Pension Protection Fund.

Security in a Defined Benefit Scheme

The benefits promised under the Amex Pension Scheme are dependent on the fund being sufficient to provide them. That fund relates to the original contributions made by you and the associated tax relief, together with those of the sponsoring employer and the growth achieved on the assets in which those monies have been invested. The benefits due to individual members are the liabilities which have to be evaluated. The Scheme Actuary reviews the differential between the two allowing for various assumptions on a regular basis. The Scheme Actuary undertakes a full review every three years and issues an Actuarial Report. Each year an interim review is undertaken and the results form part of the Trustees' Annual Report to members.

If the fund allowing for anticipated growth is insufficient to meet the liabilities as and when they fall due the scheme is deemed to be in deficit. The majority of schemes are in deficit at present. This reflects the fact that cost of the liabilities has increased significantly. This has been exacerbated by the general downturn in investments, in recent years.

When a scheme is in deficit, the Scheme Trustees are obliged to take action to resolve that. They have three basic options, make changes to investments to try and improve returns or adjust benefits to reduce liabilities or obtain more money from the sponsoring employer.

The Trustees are required to negotiate with the Company to arrange a Recovery Plan i.e. that they will pay extra contributions to make up the shortfall. Those additional contributions are usually designed to resolve the deficit over a ten year period.

The Pension Protection Fund

The Pension Protection Fund becomes relevant if the company suffers an insolvency event. In practice that does not mean the company has to be placed in administration or liquidation. On occasions the Pension Protection Fund has accepted schemes prior to that occurring and so enabled the company to "lose" the liability of the scheme and continue trading. This has the distinct advantage of enabling current employees to remain in active employment, though the pensions available for those employees and those members in deferment are reduced.

The Pension Protection Fund provides benefits based on those promised within the Amex Pension Scheme, but they will be revalued and indexed at lower rates. This is why the Pension Protection Fund Critical Yield is lower than the standard one. Additionally, the factors applied on early retirement and late retirement and when commuting pension for Tax Free Cash will differ.

The Amex Pension Scheme Funding Position

We have ascertained the following information regarding the current and past funding position of the scheme.

We understand that the American Express pension scheme is in deficit and was 79.2% funded as at 31st December 2014. That information was disclosed in a summary funding statement which was published in February 2016.

To help put these figures into perspective we have set out below a summary of the situation in previous reviews:

Date	Assets	Liabilities	Shortfall	Funding Level
31 st December 2013	£859m	£982.5m	£123.5m	87.4%
31 st December 2014	£920.1m	£1,161.3m	£241.2m	79.2%

You will notice from this that the scheme funding position has deteriorated. The deterioration is mainly due to lower Gilt Yields, which have increased the liabilities beyond expectations to all schemes.

If a scheme is in deficit, it is required to agree a Recovery Plan with the employer. The standard term is ten years, if the Recovery Plan is set to last for longer, it will have been specifically agreed with The Pensions Regulator (TPR). A longer term for the Recovery Plan indicates the scheme is in severe difficulties.

The Trustees and the Company have agreed a formal Recovery Plan with the aim of eliminating the deficit by the end of 2023. This Recovery Plan is set for 10 years, which indicates that the deficit position is an aspect of slight rather than major concern. As the Recovery Plan is set for less than 10 years, this suggests the company is in a position to resolve the situation and the scheme is therefore relatively secure. The plan is to eliminate this deficit is through a combination of contributions and investment returns. The scheme was closed to new members and existing members, which should help to reduce the future increase in liabilities.

The scheme has been closed to new members, which should help to reduce the future increase in liabilities.

The next formal triennial review is due to take place on 31st December 2017. The Scheme Actuary has 12 months to prepare the report and the Trustees have a further three months (i.e. 15 months in total) before they are required to publish it.

Pension Protection Fund Critical Yield

The Pension Protection Fund Critical Yield is relevant to you, because the Amex Pension Scheme is in deficit.

The Critical Yield in respect of the Pension Protection Fund (1.1%) at the Amex Pension Scheme Normal Retirement Age (65) is much lower than that for the Amex Pension Scheme benefits (3.4%) reflecting the fact the Pension Protection Fund provides significantly smaller benefits.

The Critical Yield figure for the Pension Protection Fund at your Intended Retirement Age of 57 (6.1%) is higher, than that for the Amex Pension Scheme benefits at Normal Retirement Age i.e. 65, which is 1.1%. This reflects the different treatment applicable, within the Pension Protection Fund, as against the Amex Pension Scheme.

7. Comparative Benefits

The Transfer Analysis Report provides comparative Pension, Tax Free Cash and Death Benefit figures on three differing sets of assumptions. For simplicity we suggest you focus on the estimated scheme benefits (in blue) and the intermediate assumptions, for the alternative Personal Pension, which are in green. The additional projections assuming lower growth rate are shown in red and those based on a higher rate of investment return are included in pink.

These comparisons are all based on the Transfer Value of £483,966.77. For ease we have summarised the results in the table below:

Comparison at Normal Retirement Age 65		
Aspect	The Amex Pension Scheme	Personal Pension
Pension at Date of Leaving	£13,077	Not applicable
Transfer Value	£483,967	Not applicable
Estimated Pension at age 65	£24,305	£22,715
Tax Free Cash at age 65	£101,018	£206,937
Residual Pension at age 65	£14,962	£17,037
Lump Sum Death Benefit now	£0	£483,967
Lump Sum Death Benefit at age 65	£0	£827,747

Comparison at Intended Retirement Age 57		
Aspect	The Amex Pension Scheme	Personal Pension
Estimated Pension at age 57	£15,282	£11,520
Tax Free Cash at age 57	£68,756	£140,063
Residual Pension at age 57	£10,203	£8,640
Lump Sum Death Benefit now	£0	£483,967
Lump Sum Death Benefit at age 57	£0	£560,252

When reviewing the above figures, please bear in mind the following comments:

- All of these figures are based on the computations within the Transfer Analysis Report. For more details regarding the underlying assumptions therein, please review that document, which is attached at Appendix One.
- All benefits are restricted in line with the Lifetime Allowance, which applies irrespective of whether you transfer. The Transfer Analysis Report does not allow for this and so quotes comparisons ignoring that.
 - This limits Tax Free Cash to £250,000 from all sources.
 - This limits lump sum death benefits payable tax free to £1 million from all sources.
 - Any benefits in excess of the respective Tax Free Cash or Lifetime Allowance limit drawn as a lump sum will be taxed at 55%.
- The estimated pension from the Amex Pension Scheme at both age 65 and 57 includes a Temporary Pension, which is payable from actual retirement age until age 67. This results in what appears to be a much higher pension from the scheme, as compared with the alternative Personal Pension.
- If you review the graphs on pages 5 and 8 of the Transfer Analysis Report, you can see the step down at age 67. This is because, at that age your State Pension should commence, replacing this supplementary pension from the scheme.
- In both cases, the subsequent pension from the Amex Pension Scheme is actually lower than that available from the alternative Personal Pension.
- These figures exclude the Additional Voluntary Contribution Fund of £67,126, which is ignored in the Transfer Analysis Report.
- We have been advised that individuals drawing their retirement benefits from the Amex Pension Scheme benefit from Travel Discounts, Reduced costs for travellers cheques, currency and Amex Cards. In addition there is a Retirees Club and Newsletter which offers group visits to places of interest and talks. These perks would be lost on transfer and of course there is no compensatory monies within the Transfer Value.

You can identify from the comparisons which benefits are estimated to be larger and so will potentially increase in value on transfer. Please remember none of these figures are guaranteed, all of them are based on assumptions and so the likelihood is that they will all be incorrect.

Pension

The promised pension figure quoted in relation to the Amex Pension Scheme allows for revaluation in accordance with the scheme rules to the current date and an estimate for the future. This is very unlikely to be the same as the Amex Pension Scheme actually expects to pay.

The alternative pension from the Personal Pension assumes an annuity is purchased at the retirement, with the same indexation and spouse's pension as the Amex Pension Scheme would provide. That calculation is undertaken using our regulator's prescribed annuity rates which are extremely expensive, partly because they include a 4% expenses loading. We feel the prospective pension is therefore lower than would be available in practice.

The table above indicates that the estimated pension available from the Personal Pension is lower than that projected from the existing scheme, which is what we would expect. This is quite normal, reflecting the differential in the cost of providing benefits from the fund, which is what the Amex Pension Scheme does, as against purchasing an annuity, which is what it is assumed will occur with the Personal Pension.

We would not normally suggest an individual transfer out of a Defined Benefits scheme like the Amex Pension Scheme if they were planning to buy an annuity at retirement. A Defined Benefits scheme can offer the same fixed level of income with long term security and will generally provide a higher income than an annuity available in the market place. The only occasion on which an annuity may be a better option would be if there were concerns regarding the long term security of the scheme.

A Transfer would usually only be suitable if an individual required flexibility of income in retirement and so was intending to draw benefits using the Drawdown option. In that situation, the pension is not fixed or secure; additionally, it does not increase in payment and does not include any spouse's pension. The facility for increases and benefits for Nominated Beneficiaries are dependent on fund growth. This desire for flexibility in retirement is a potential benefit and is not of itself sufficient reason to transfer. However, it is an ancillary benefit of transferring if that is suitable for other reasons.

In short, a transfer is unlikely to result in an individual being able to obtain a similar level of secure pension, especially if that is to incorporate a similar level of spouse's or dependent's pension and indexation. If you require a joint life indexed annuity, the scheme will provide the best value for money. A transfer may be useful to allow you as an individual to take an alternative shape of benefits, which is more suited to your needs, but it does carry much higher risk.

Benefits available immediately

The Amex Pension Scheme have provided us with an estimate of your benefits if you took them immediately.

The figures provided by the scheme assuming you took benefits as at 1st October 2016 are as follows:

Pension	£19,332.02 per annum
OR	
Tax Free Cash	£91,414.48
& Residual Pension	£13,712.17 per annum

The Additional Voluntary Contribution Fund is included in the figures above. We have been advised that could be used to fund part of the Tax Free Cash, thereby reducing the amount of pension you have to give up.

As we would expect, the numbers are not identical to those quoted within the Transfer Analysis Report. This reflects the differential in assumptions made by the Scheme Actuary in relation to revaluation between now and retirement, and those made within the Transfer Analysis Report as prescribed by the Financial Conduct Authority.

Tax Free Cash

The other information under consideration is the maximum Tax Free Cash available. The projection of benefits under the Amex Pension Scheme indicates a Tax Free Cash figure of £101,018 at the Scheme Normal Retirement Age of (65) and £68,756 at your Intended Retirement Age of (57).

This estimate allows for the fact that the Tax Free Cash is based on the cost of the projected pension which is assessed using the Commutation Factors. We would normally expect the scheme to operate a series of Commutation Factors applicable to different ages and sexes, reflecting the variation in the cost of pension. Higher Factors result in higher Tax Free Cash and residual pension and vice versa.

Those figures are based on the various Commutation Factors of 9.46 & 12.61, which apply for differing tranches of benefits, which are the ones we recently obtained from the Amex Pension Scheme Administrators in relation to the Normal Retirement Age of 65. The Commutation Factors currently in force at your Intended Retirement Age of 57 are 11.86 & 15.81 again applied to the individual slices of pension.

For the benefits that do not receive any indexation the factor is lower, which makes sense, because of course those benefits are cheaper.

As the factors can be varied at any time there is no guarantee the current ones will actually be correct when you come to draw benefits. These figures are those that used at present and are therefore reasonable to use for our assessment in the interim.

In the absence of information regarding the Commutation Factors used by the scheme, the standard assumption is 15 at all ages. This means that the Amex Pension Scheme are using lower factors than the norm for most of the benefits.

The important thing to remember is, the higher the Commutation Factors that are being used the more generous the Tax Free Cash and Residual Pension will be, whereas if the Commutation Factor is lower, the benefits will also be reduced. However, as we have undertaken our assessment considering the Critical Yield required to match the total pension this is not significant in respect of the advice.

In relation to the Personal Pension the maximum Tax Free Cash figure is simply 25% of the fund. This means the figure in the Transfer Analysis Report is an estimate based on an assumed growth rate.

Don't forget that the estimates in relation to the Amex Pension Scheme ignore the Additional Voluntary Contribution benefits, which will provide additional Tax Free Cash and pension at retirement. This is because the level of benefits provided is determined by the size of the fund and the annuity rates available. This is the same basis as the alternative and so there is little differential to compare.

This means that in addition to the £101,018 Tax Free Cash illustrated in the Transfer Analysis Report, you can convert 25% of the Additional Voluntary Contribution Fund (currently valued at £67,126.00) into Tax Free Cash. However, your Tax Free Cash from all sources will still be restricted in accordance with the Lifetime Allowance.

You can also use that fund to provide the Tax Free Cash, reducing the amount of scheme pension commuted. This will enhance the benefits available from the Amex Pension Scheme.

Death Benefits

Death benefits within Defined Benefits Schemes or the Deferred Annuities which replace them on wind up are usually in the form of taxable pension which may only be paid to dependants, whereas after transfer, Personal Pensions can pay out the whole fund as a lump sum tax free up the Lifetime Allowance. This ability to provide a capital sum in the event of your death could be seen as a benefit of transferring. The comparative Death Benefits are therefore considered within this report.

Death Benefits in deferment – Lump Sums

Most schemes do not pay significant lump sum death benefits once the member has left service. The majority provide a return of member's contributions sometimes with interest. The more generous schemes offer a lump sum based on a multiple of pension.

The Amex Pension Scheme offers no lump sum death benefit in the event a member dies in deferment.

In the Personal Pension the full fund i.e. the Transfer Value less charges, plus any subsequent growth to the date of death, is available. The comparative figures are set out on page 15 of the Transfer Analysis Report.

The Amex Pension Scheme will pay the value of the Additional Voluntary Contribution Fund as a lump sum to your Nominated Beneficiary under the discretion of the Trustees. This is ignored in the Transfer Analysis Report, because the same will apply in the alternative Personal Pension.

Any Lump Sum death benefits i.e. either from the Amex Pension Scheme or the Personal Pension can be paid tax free (up to the Lifetime Allowance) to your Nominated Beneficiaries. It is very unlikely that the Lifetime Allowance will have any impact on the benefits available from the Amex Pension Scheme. It is more likely to be relevant in relation to the Transfer Value. Excess funds can be used to provide pensions for dependants, which will not be subject to the Lifetime Allowance Charge, but will suffer Income Tax. Alternatively the excess over the Lifetime Allowance can be paid as a lump sum less the 55% Lifetime Allowance Charge.

Death Benefits in deferment - Dependants Pensions

Under HMRC Rules a spouse or civil partner is automatically deemed dependant as is a child under age 23. Additionally, a child suffering from mental or physical disability will usually be deemed dependant throughout life. However, any individual i.e. partner, cohabitee, parent or person will need to prove financial dependence to obtain a benefit from a Defined Benefit Scheme or Deferred Annuity. The requirements are less onerous in relation to annuities and Drawdown.

In the event of your death in deferment the Amex Pension Scheme would provide a 50% spouse's pension. As you and Geoffrey are married there will be no need to prove financial dependency.

Death Benefits in deferment - Children's Pensions

As explained earlier, HMRC deem children dependents until age 23, or throughout life if they are suffering from mental or physical incapacity. This does mean that schemes can provide for children either instead of spouses or partners, i.e. other adult dependents or in addition to them. Each and every scheme will have specific definitions of a child and will generally restrict the proportions payable, thereby limiting their liability.

In summary, HMRC rules allow schemes to pay pensions to children until they reach age 23. Though Schemes can pay Children's Pensions in addition to the main dependant's pensions, few actually do. Frequently, where they do pay Children's Pensions they are restricted to certain ages (often 18, extending to 21 if remaining in full time education), which reflects previous HMRC rules. Any benefit will cease at age 23 at the absolute outside, in accordance with current legislation. The Transfer Analysis system does not allow for the value of any Children's Pension and so this information will not affect the numerical results.

We have ascertained that the Amex Pension Scheme will pay pensions for eligible children based on a percentage of your pension at date of leaving revalued until death.

- The maximum is 25% of your total pension distributed between up to four children.
- That pension is generally payable until age 18.
- It can be extended to age 21 if they are in full time education.

This is not allowed for in the Transfer Analysis Report, However, as both of your children will be over 21 in due course, this is of little value to you.

The amount of a dependant's pension is not restricted by the Lifetime Allowance. The income generated has always been taxed in the hands of the recipient. Following recent changes, a dependent's pension provided via an annuity will not suffer tax. Such provision from Defined Benefit Schemes like the Amex Pension Scheme will still be subject to Income Tax, despite the fact no tax applies in either joint life annuities or Drawdown on death before age 75. There appear to be no plans to remove this anomaly.

Comparative Value of Dependant's Benefits

In the alternative Personal Pension, the entire fund can be paid as a lump sum which is reflected in the comparison shown in the report. This lump sum can be paid to any Nominated Beneficiary who need not prove their dependence. This is tax free up to the Lifetime Allowance prevailing in the tax year of death.

To ensure the spouse's pension benefit is considered properly a capital value of that potential spouse's pension together with any lump sum payable is calculated within the Transfer Analysis Report. That depends on the projected date of death and the spouse's age and assumes the benefit is provided via an annuity. The capital cost is therefore the estimated purchase price of that annuity. The results are set out on page 15 of the Transfer Analysis Report.

That graph indicates that immediately after transfer of the fund value available from the Personal Pension will exceed the cost of the spouse's pension available to Geoffrey together with any lump sum payable. This shows that not only will the lump sum increase on transfer, but the value of that lump sum exceeds the estimated cost of the benefits available from the Amex Pension Scheme immediately.

Death Benefits after Retirement – Lump Sums

Within a Defined Benefit Scheme or a Deferred Annuity, there may be provision to pay a lump sum tax free, to a Nominated Beneficiary, but as that based on the commuted value of any guarantee, the sum involved will be relatively small.

The Transfer Analysis Report only considers death benefits before retirement. It does not consider the position after retirement, which would depend on the method used within the Personal Pension to provide income in retirement. We hope the following explanations will assist you in evaluating the various scenarios.

The Amex Pension Scheme includes a five year guarantee, which means the pension payable to you will continue for the first five years after retirement even if you die in the period. HMRC have confirmed that the ongoing instalments relating to the guarantee can be commuted. That lump sum payment will not be tested against the Lifetime Allowance and is not subject to Inheritance Tax. The lump sum, may be paid to a Nominated Beneficiary who need not be dependent upon you. Tax would only apply to that lump sum payment if you died after age 75 and so is unlikely to be relevant in practice.

Death Benefits after Retirement – Dependents Pensions

Within a Defined Benefit Scheme or a Deferred Annuity, the death benefits after retirement are generally provided as an ongoing taxable income, payable to dependants. Under HMRC Rules a spouse or civil partner is automatically deemed dependant as is a child under age 23. Additionally, a child suffering from mental or physical disability will usually be deemed dependant throughout life. However, any other individual i.e. partner, cohabitee, parent or other individual will need to prove financial dependence to obtain a benefit. The ongoing pension will be taxable as income in the hands of the recipient.

The Amex Pension Scheme pays a spouse's pension on death in retirement, amounting to 50% of the indexed pension due to you, assuming you had not taken any Tax Free Cash. That will be paid to Geoffrey automatically and is allowed for in the Critical Yield calculated in the Transfer Analysis Report.

Comparative Benefits

The above explanations are based on the current pension legislation and taxation rules, which are subject to constant change.

In relation to the five year guarantee, in a Defined Benefit Scheme, Deferred Annuity or an Annuity the lump Sum death benefits can be paid tax free, if the individual dies before age 75, irrespective of whether they have taken benefits. That lump sum can be paid to any Nominated Beneficiary, who need not prove financial dependence. The Lifetime Allowance does not impact as benefits have previously been crystallised.

In the Personal Pension, the remaining fund available either before or after drawing benefits can be paid as a tax free lump sum on death before age 75. The only restriction is in relation to the Lifetime Allowance in relation to benefits which have not yet been crystallised. If benefits have previously been drawn, that will no longer be relevant in respect of the crystallised fund. The fund available from a Personal Pension in Drawdown will be a much larger than the value of the five year guarantee available from a Defined Benefit Scheme or an annuity, including a Deferred Annuity. That is because it will be the entire fund, and none will be retained to provide an ongoing taxable dependant's pension. Again, those individuals who benefit from these lump sums need not be dependants, which allows you to pass benefits to other family members and mitigate Inheritance Tax.

If the individual is over 75 when they die, the tax due, will be the highest marginal rate of Income Tax applicable to the beneficiary. This is actually unlikely to be relevant in practice, in respect of Defined Benefit Schemes, Deferred Annuities or Annuities because most guarantees do not extend past age 75. It will be significant in respect of funds held in Personal Pensions from which benefits are being taken via Drawdown.

In relation to the ongoing pension instalments, the rules differ between Annuities and Defined Benefits Schemes. Dependents claiming pension under a Defined Benefit Scheme will still be subject to Income Tax on that income irrespective of whether the member was aged under 75 at the time of their death. A beneficiary under a joint life annuity, which we understand includes a Deferred Annuity will not be taxed on that income. This was arranged to ensure annuities were in line with Drawdown, but treats Defined Benefits Schemes differently. This will not generally impact on Personal Pensions, as benefits will be provided via Drawdown and then paid out as a lump sum in the event of the death of an individual.

The amount payable to a dependant under an annuity is restricted to 100% of the income being paid to the annuitant at death. In practice, the intended beneficiary of the guarantee and the dependant's pension will be named on the annuity application. Financial Dependency will be tested at the time of application. Again this differs to Defined Benefits Schemes where the financial dependency testing occurs at the time of death.

Inheritance Tax

We do need to mention the potential impact on Inheritance Tax. In the event a member undertakes a Pension Transfer and dies within two years, their executor is required to report details of the transfer when applying for probate on form IHT409. HMRC reserve the right to charge Inheritance Tax where the deceased transferred pension benefits, made a nomination, appointment or assignment or made any changes to the pension benefits in the two years before they died. This right is more likely to be acted upon if the individual were knowingly in poor health at the time. There is no specific legislation or case law which confirms exactly how HMRC interpret this.

If you were to simply undertake the transfer and then die leaving the significantly higher benefit to Nominated Beneficiaries, it is likely HMRC might take a dim view and impose Inheritance Tax on the increase in benefit.

Despite the concern about this two year rule and the potential tax liability, it is important to bear in mind that even if 40% Inheritance Tax is payable on the lump sum benefit available from the Personal Pension after transfer the net sum will almost certainly be significantly higher than the lump sum death benefit available from the current scheme.

Where you leave the any benefits directly to Geoffrey this will sit in his estate for Inheritance Tax purposes. It will also be part of his estate should he remarry in the future, or be financially assessed for the cost of long term care. Using a Discretionary Trust enables Geoffrey to control and access the funds to support him during the remainder of his life, but protects the value from Inheritance Tax, care costs and from passing to any new wife on his death. Either of these options will give Geoffrey more choice and control. This is an aspect to contemplate.

We should also mention the introduction of Nominee Accounts and the like, which formed part of the Pension Freedom Legislation. This basically enables an individual to arrange for their pension fund to be retained within pension rules but passed to another individual i.e. a Nominated Beneficiary who need not be dependent. As that transfer will not be subject to Inheritance Tax nor any other tax in the hand of the recipient beneficiary it will become even more useful when planning the death after age 75. This is a matter to consider in due course.

This is purely a summary

Please see the Transfer Analysis Report for more information regarding each aspect

Appendix One

Transfer Analysis Report

PENSION TRANSFER ANALYSIS

Prepared for
Mrs L Jones

Relating to
American Express UK Pension Plan

Prepared
17 October 2016
Heather Dunne
HDC Limited

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INTRODUCTION

This Pension Transfer Analysis Report is designed to assist in deciding whether a transfer of benefits from the Existing Scheme to an alternative pension contract would be appropriate.

This report provides:

- A calculation of the annual rate of growth (Critical Yield) required to in order to match the value of the benefits that would have been available in the Existing Scheme assuming the transfer value is invested into a Personal Pension and an annuity is purchased at retirement.
- Comparisons of the projected benefits in the Existing Scheme and the potential benefits arising from purchasing an annuity from a Personal Pension.
- A series of Cash Flow Models illustrating the potential outcomes on transfer to a Personal Pension assuming either Uncrystallised Funds Pension Lump Sum or Pension Drawdown is used to access benefits equivalent to those available in the Existing Scheme.
- A comparison of the projected benefits available upon death, before and after retirement.

Assumptions

As we are projecting into the future, we have to use a range of assumptions. This report follows the assumptions laid out by the industry regulators, the Financial Conduct Authority (FCA). The assumptions cover how your pension fund may grow, how your pension fund is converted into an annual pension and future inflation rates. The FCA sets out 3 economic scenarios which are described as Low, Intermediate (Mid) and High.

Life Expectancy for Cash Flow Modelling

The Cash Flow Models use data provided by the Office for National Statistics to make assumptions about average life expectancy. In your case the assumptions are as follows:

UK Average Life Expectancy (source: ONS)	You	Partner
Based upon your gender and year of birth	89	86

Disclaimer

This report has been produced based on the information provided to HDC Limited by the scheme administrators. Whilst it is believed that this interpretation of the information is correct, it cannot be guaranteed and HDC Limited accept no liability for any errors in, or omissions from, the information provided.

This report does not make a recommendation for or against a transfer of benefits.

This report has been produced in accordance with the assumptions set out in the FCA Conduct of Business Sourcebook.

CRITICAL YIELDS FOR ANNUITY PURCHASE

The benefits in an individual pension plan grow according to the investment return of the funds in which the plan is invested. The Critical Yield shows how much growth is required each year in order to match the value of the benefits that would have been available in the Existing Scheme assuming an annuity purchase in an individual pension plan. For the purposes of valuing the Existing Scheme benefits, an Annuity Interest Rate of 2.1% has been used. This rate is set by the FCA and is reviewed each month.

The rates in the Personal Pension Critical Yields table below breaks down the Critical Yield into two components: the growth required to match the value of the starting pension in the existing scheme; and the additional annual growth required to match the value of guaranteed periods and increases to the existing scheme pension once it comes into payment.

The table is also broken down into Single Life and Joint Life Critical Yields. The Single Life Yields make no allowance for any spouse's pensions in the existing scheme, whereas the Joint Life yields will allow for the Existing Scheme's spouse's pension. Based on your current marital status and the scheme rules, you would currently be classified as Joint Life.

The critical yields shown have been based on a transfer to the following plan:

Personal Pension No Charges

Personal Pension Critical Yields

The following critical yields are based on a transfer value of £483,966.77.

	Single Life		Currently Classified as Joint Life	
	Full Pension	Cash & Reduced Pension	Full Pension	Cash & Reduced Pension
Retiring at Age 65	2.4%	0.2%	3.4%	1.5%
Comprised of				
Level Pension of £24,305 (Full) £14,962 (Reduced)	-0.1%	-1.8%	0.7%	-0.8%
Effect of Pension Increases and Guaranteed Period	+2.5%	+2%	+2.7%	+2.3%
Retiring at Age 57	1.6%	-5.1%	5.0%	-1.2%
Comprised of				
Level Pension of £15,282 (Full) £10,203 (Reduced)	-9.2%	-13.7%	-7.0%	-11.3%
Effect of Pension Increases and Guaranteed Period	+10.8%	+8.6%	+12%	+10.1%

Assuming Scheme applies to Pension Protection Fund Today

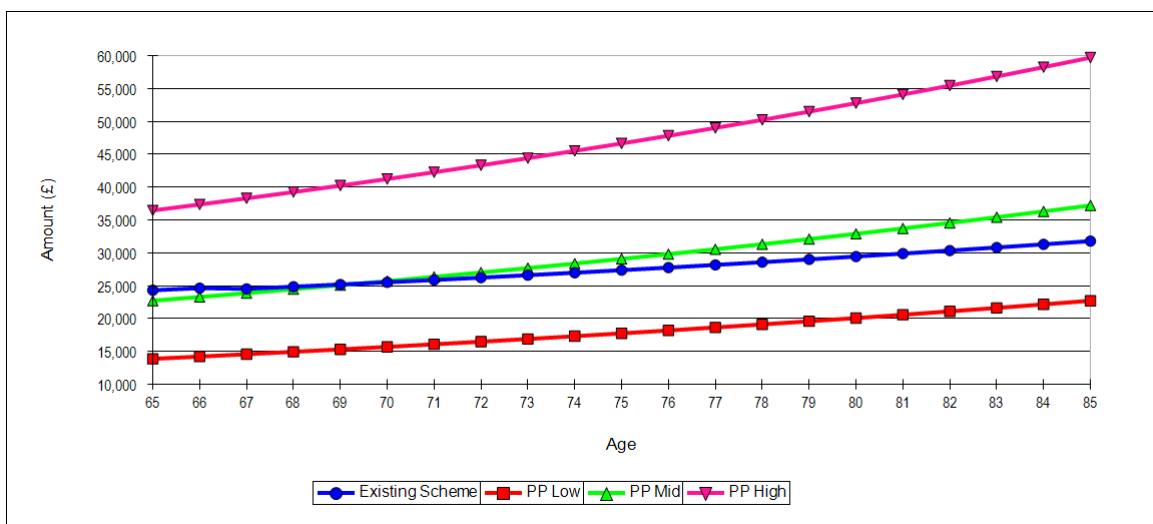
	Single Life		Joint Life	
	Full Pension	Cash & Reduced Pension	Full Pension	Cash & Reduced Pension
Retiring at Age 65			1.1%	0.7%
Retiring at Age 57			6.1%	4.7%

RETIREMENT BENEFITS AT AGE 65 FOR ANNUITY PURCHASE

Annual Pension Benefits

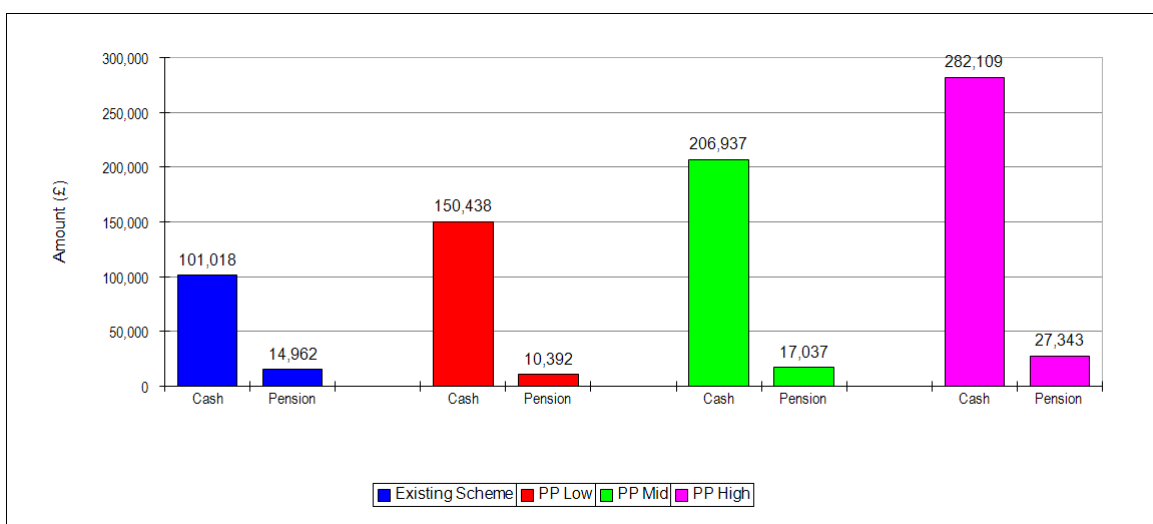
The graph below compares the projected pension benefits for the Existing Scheme with those that could become available at age 65 if purchasing an annuity from the Personal Pension at the Low, Mid and High rates of return. The initial pensions are:

Existing Scheme	Personal Pension		
£24,305	£13,856 (Low)	£22,715 (Mid)	£36,457 (High)



Tax Free Cash and Reduced Annual Pension

The estimated maximum amounts of tax free cash and annual pension payable at age 65 are as follows:



DRAWING INCOME ONLY CASH FLOW MODELLING FROM AGE 65

The tables below show the funds left within the Personal Pension Plan, assuming you withdraw the same pension each year as would be payable to you if you stayed in the Existing Scheme. Once you reach your average life expectancy, they show the amount being payable as the spouse/partner pension within the scheme. In addition, they show the critical yield required from now until various ages to match the scheme pension payable net of tax from the Personal Pension. The initial pension payable at age 65 from the scheme is £24,305. Allowing for tax of 45%, your net of tax income from the scheme at age 65 would be £13,368.

Taking Full Scheme Pension and No Tax Free Cash - using UFPLS in Personal Pension

This table assumes the UFPLS option will be used in the Personal Pension, which means 25% of the amount drawn would be tax free.

Your Age	Probability of Reaching Your Age		Annual Scheme Pension after Tax	Personal Pension Fund Remaining at Start of Year			Growth Rate required to fund pension until age
	You	Partner		Low 2%	Mid 5%	High 8%	
65	95%	94%	£13,368	£601,000	£827,000	£1,120,000	
70	92%	89%	£14,036	£556,000	£940,000	£1,530,000	-10.8%
75	87%	83%	£15,049	£499,000	£1,070,000	£2,110,000	-5.0%
80	79%	74%	£16,194	£429,000	£1,240,000	£2,970,000	-2.0%
85	68%	62%	£17,485	£341,000	£1,440,000	£4,210,000	-0.3%
89	57%	49%	£9,318	£256,000	£1,630,000	£5,600,000	0.6%
90	53%	46%	£9,471	£247,000	£1,690,000	£6,030,000	0.7%
95	35%	29%	£10,294	£195,000	£2,080,000	£8,770,000	1.2%
100	18%	14%	£11,223	£131,000	£2,570,000	£12,800,000	1.5%
105	6%	5%	£12,272	£53,000	£3,180,000	£18,700,000	1.9%
Age Pension Fund Depleted				>105	>105	>105	

Taking Full Scheme Pension and No Tax Free Cash - using Full Drawdown in Personal Pension

This table assumes Full Drawdown option will be used in the Personal Pension, which means 25% of the Initial Fund is taken as cash and used to provide income until that runs out, then income is drawn from the fund (and taxed).

Your Age	Probability of Reaching Your Age		Annual Scheme Pension after Tax	Personal Pension Fund Remaining at Start of Year			Growth Rate required to fund pension until age
	You	Partner		Low 2%	Mid 5%	High 8%	
65	95%	94%	£13,368	£451,000	£620,000	£846,000	
70	92%	89%	£14,036	£498,000	£792,000	£1,240,000	-11.2%
75	87%	83%	£15,049	£550,000	£1,010,000	£1,820,000	-5.3%
80	79%	74%	£16,194	£479,000	£1,270,000	£2,680,000	-2.2%
85	68%	62%	£17,485	£370,000	£1,450,000	£3,900,000	-0.3%
89	57%	49%	£9,318	£265,000	£1,610,000	£5,160,000	0.7%
90	53%	46%	£9,471	£253,000	£1,680,000	£5,560,000	0.8%
95	35%	29%	£10,294	£186,000	£2,040,000	£8,060,000	1.3%
100	18%	14%	£11,223	£103,000	£2,500,000	£11,700,000	1.7%
105	6%	5%	£12,272	£3,410	£3,070,000	£17,100,000	2.0%
Age Pension Fund Depleted				105	>105	>105	
Probability of Reaching that Age (You/Partner)				6%/5%			

DRAWING CASH SUM AND INCOME CASH FLOW MODELLING FROM AGE 65

The tables below show the funds left within the Personal Pension Plan, assuming you withdraw an initial amount equivalent to the Tax Free Cash Sum payable if you stayed in the Existing Scheme (£101,018) followed by the same reduced pension each year as would be payable to you if you stayed in the scheme. Once you reach your average life expectancy, they show the amount being payable as the spouse/partner pension within the scheme. In addition, they show the critical yield required from now until various ages to match the scheme pension payable net of tax from the Personal Pension. The reduced initial pension payable is £14,962. Allowing for tax of 45%, your net of tax income from the scheme at age 65 would be £8,229.

Taking Initial Cash and Reduced Scheme Pension - using UFPLS in Personal Pension

This table assumes the UFPLS option will be used in the Personal Pension, which means 25% of the amount drawn would be tax free. An initial amount of £152,480 would be drawn to provide an initial sum net of tax equal to the scheme tax free cash sum of £101,018.

Your Age	Probability of		Annual Scheme Pension after Tax	Personal Pension Fund Remaining at Start of Year			Growth Rate required to fund pension until age
	Reaching Your Age	Partner		Low 2%	Mid 5%	High 8%	
65	95%	94%	£8,229	£449,000	£675,000	£975,000	
70	92%	89%	£8,607	£429,000	£790,000	£1,350,000	-6.6%
75	87%	83%	£9,293	£404,000	£933,000	£1,910,000	-3.9%
80	79%	74%	£10,066	£370,000	£1,100,000	£2,720,000	-2.0%
85	68%	62%	£10,938	£326,000	£1,320,000	£3,900,000	-0.6%
89	57%	49%	£9,318	£282,000	£1,530,000	£5,230,000	0.2%
90	53%	46%	£9,471	£273,000	£1,590,000	£5,630,000	0.3%
95	35%	29%	£10,294	£224,000	£1,950,000	£8,180,000	0.9%
100	18%	14%	£11,223	£163,000	£2,400,000	£11,900,000	1.4%
105	6%	5%	£12,272	£88,200	£2,970,000	£17,400,000	1.7%
Age Pension Fund Depleted				>105	>105	>105	

Taking Initial Cash and Reduced Scheme Pension - using Full Drawdown in Personal Pension

This table assumes Full Drawdown option will be used in the Personal Pension, which means 25% of the Initial Fund is taken as cash and used initially to provide the £101,018 tax free cash and income at the same level as the scheme until that runs out, then income is drawn from the fund (and taxed).

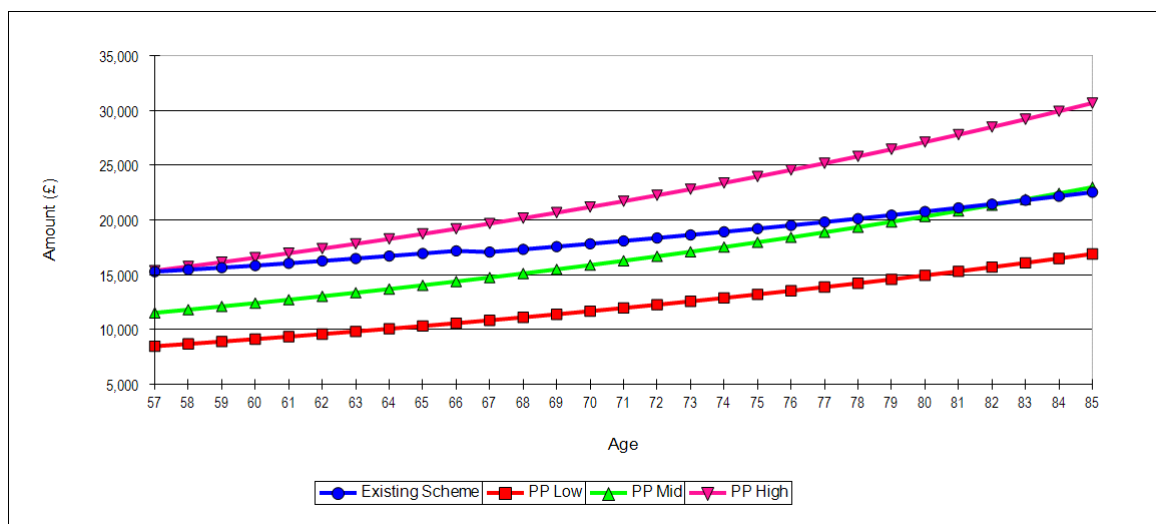
Your Age	Probability of		Annual Scheme Pension after Tax	Personal Pension Fund Remaining at Start of Year			Growth Rate required to fund pension until age
	Reaching Your Age	Partner		Low 2%	Mid 5%	High 8%	
65	95%	94%	£8,229	£451,000	£620,000	£846,000	
70	92%	89%	£8,607	£498,000	£792,000	£1,240,000	-6.6%
75	87%	83%	£9,293	£480,000	£1,010,000	£1,820,000	-3.9%
80	79%	74%	£10,066	£439,000	£1,230,000	£2,680,000	-2.0%
85	68%	62%	£10,938	£385,000	£1,460,000	£3,930,000	-0.6%
89	57%	49%	£9,318	£332,000	£1,690,000	£5,250,000	0.2%
90	53%	46%	£9,471	£321,000	£1,760,000	£5,660,000	0.3%
95	35%	29%	£10,294	£261,000	£2,150,000	£8,200,000	0.9%
100	18%	14%	£11,223	£186,000	£2,630,000	£11,900,000	1.4%
105	6%	5%	£12,272	£95,200	£3,240,000	£17,400,000	1.7%
Age Pension Fund Depleted				>105	>105	>105	

RETIREMENT BENEFITS AT AGE 57 FOR ANNUITY PURCHASE

Annual Pension Benefits

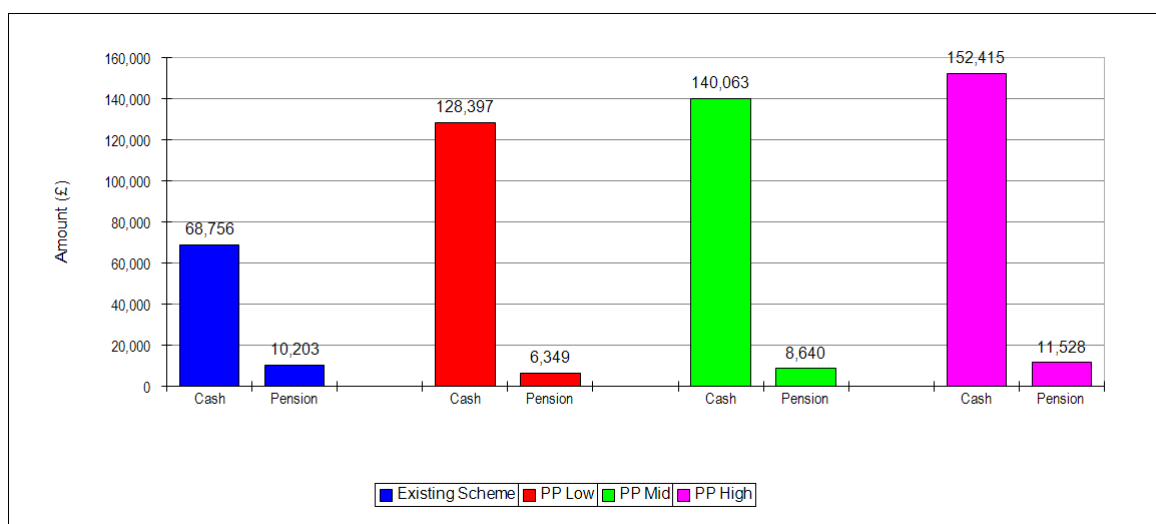
The graph below compares the projected pension benefits for the Existing Scheme with those that could become available at age 57 if purchasing an annuity from the Personal Pension at the Low, Mid and High rates of return. The initial pensions are:

Existing Scheme	Personal Pension		
£15,282	£8,465 (Low)	£11,520 (Mid)	£15,370 (High)



Tax Free Cash and Reduced Annual Pension

The estimated maximum amounts of tax free cash and annual pension payable at age 57 are as follows:



DRAWING INCOME ONLY CASH FLOW MODELLING FROM AGE 57

The tables below show the funds left within the Personal Pension Plan, assuming you withdraw the same pension each year as would be payable to you if you stayed in the Existing Scheme. Once you reach your average life expectancy, they show the amount being payable as the spouse/partner pension within the scheme. In addition, they show the critical yield required from now until various ages to match the scheme pension payable net of tax from the Personal Pension. The initial pension payable at age 57 from the scheme is £15,282. Allowing for tax of 45%, your net of tax income from the scheme at age 57 would be £8,405.

Taking Full Scheme Pension and No Tax Free Cash - using UFPLS in Personal Pension

This table assumes the UFPLS option will be used in the Personal Pension, which means 25% of the amount drawn would be tax free.

Your Age	Probability of Reaching Your Age		Annual Scheme Pension after Tax	Personal Pension Fund Remaining at Start of Year			Growth Rate required to fund pension until age
	You	Partner		Low 2%	Mid 5%	High 8%	
57	99%	98%	£8,405	£513,000	£560,000	£609,000	
60	98%	97%	£8,709	£505,000	£607,000	£724,000	-41.9%
65	95%	94%	£9,319	£486,000	£698,000	£982,000	-18.2%
70	92%	89%	£9,806	£462,000	£810,000	£1,350,000	-9.3%
75	87%	83%	£10,568	£430,000	£947,000	£1,890,000	-4.9%
80	79%	74%	£11,428	£388,000	£1,110,000	£2,680,000	-2.3%
85	68%	62%	£12,398	£335,000	£1,320,000	£3,840,000	-0.7%
89	57%	49%	£6,632	£283,000	£1,520,000	£5,130,000	0.2%
90	53%	62%	£6,747	£278,000	£1,580,000	£5,530,000	0.3%
95	35%	29%	£7,366	£252,000	£1,960,000	£8,070,000	0.7%
100	18%	14%	£8,064	£217,000	£2,440,000	£11,700,000	1.1%
105	6%	5%	£8,853	£174,000	£3,050,000	£17,200,000	1.4%
Age Pension Fund Depleted				>105	>105	>105	

Taking Full Scheme Pension and No Tax Free Cash - using Full Drawdown in Personal Pension

This table assumes Full Drawdown option will be used in the Personal Pension, which means 25% of the Initial Fund is taken as cash and used to provide income until that runs out, then income is drawn from the fund (and taxed).

Your Age	Probability of Reaching Your Age		Annual Scheme Pension after Tax	Personal Pension Fund Remaining at Start of Year			Growth Rate required to fund pension until age
	You	Partner		Low 2%	Mid 5%	High 8%	
57	99%	98%	£8,405	£385,000	£420,000	£457,000	
60	98%	97%	£8,709	£408,000	£486,000	£575,000	-45.9%
65	95%	94%	£9,319	£451,000	£620,000	£846,000	-22.7%
70	92%	89%	£9,806	£498,000	£792,000	£1,240,000	-11.7%
75	87%	83%	£10,568	£475,000	£956,000	£1,790,000	-5.9%
80	79%	74%	£11,428	£420,000	£1,100,000	£2,510,000	-2.8%
85	68%	62%	£12,398	£351,000	£1,290,000	£3,570,000	-0.8%
89	57%	49%	£6,632	£283,000	£1,460,000	£4,740,000	0.2%
90	53%	46%	£6,747	£277,000	£1,530,000	£5,110,000	0.3%
95	35%	29%	£7,366	£239,000	£1,880,000	£7,430,000	0.8%
100	18%	14%	£8,064	£191,000	£2,320,000	£10,800,000	1.2%
105	6%	5%	£8,853	£131,000	£2,870,000	£15,800,000	1.6%
Age Pension Fund Depleted				>105	>105	>105	

DRAWING CASH SUM AND INCOME CASH FLOW MODELLING FROM AGE 57

The tables below show the funds left within the Personal Pension Plan, assuming you withdraw an initial amount equivalent to the Tax Free Cash Sum payable if you stayed in the Existing Scheme (£68,756) followed by the same reduced pension each year as would be payable to you if you stayed in the scheme. Once you reach your average life expectancy, they show the amount being payable as the spouse/partner pension within the scheme. In addition, they show the critical yield required from now until various ages to match the scheme pension payable net of tax from the Personal Pension. The reduced initial pension payable is £10,203. Allowing for tax of 45%, your net of tax income from the scheme at age 57 would be £5,612.

Taking Initial Cash and Reduced Scheme Pension - using UFPLS in Personal Pension

This table assumes the UFPLS option will be used in the Personal Pension, which means 25% of the amount drawn would be tax free. An initial amount of £103,783 would be drawn to provide an initial sum net of tax equal to the scheme tax free cash sum of £68,756.

Your Age	Probability of Reaching Your Age		Annual Scheme Pension after Tax	Personal Pension Fund Remaining at Start of Year			Growth Rate required to fund pension until age
	You	Partner		Low 2%	Mid 5%	High 8%	
57	99%	98%	£5,612	£409,000	£456,000	£505,000	
60	98%	97%	£5,824	£408,000	£500,000	£608,000	-32.1%
65	95%	94%	£6,266	£403,000	£587,000	£838,000	-17.4%
70	92%	89%	£6,563	£394,000	£695,000	£1,170,000	-9.7%
75	87%	83%	£7,110	£382,000	£830,000	£1,660,000	-5.6%
80	79%	74%	£7,727	£363,000	£996,000	£2,370,000	-3.1%
85	68%	62%	£8,423	£338,000	£1,200,000	£3,410,000	-1.5%
89	57%	49%	£6,632	£311,000	£1,400,000	£4,580,000	-0.6%
90	53%	46%	£6,747	£307,000	£1,460,000	£4,940,000	-0.4%
95	35%	29%	£7,366	£284,000	£1,810,000	£7,190,000	0.2%
100	18%	14%	£8,064	£253,000	£2,240,000	£10,500,000	0.7%
105	6%	5%	£8,853	£213,000	£2,790,000	£15,300,000	1.1%
Age Pension Fund Depleted				>105	>105	>105	

Taking Initial Cash and Reduced Scheme Pension - using Full Drawdown in Personal Pension

This table assumes Full Drawdown option will be used in the Personal Pension, which means 25% of the Initial Fund is taken as cash and used initially to provide the £68,756 tax free cash and income at the same level as the scheme until that runs out, then income is drawn from the fund (and taxed).

Your Age	Probability of Reaching Your Age		Annual Scheme Pension after Tax	Personal Pension Fund Remaining at Start of Year			Growth Rate required to fund pension until age
	You	Partner		Low 2%	Mid 5%	High 8%	
57	99%	98%	£5,612	£385,000	£420,000	£457,000	
60	98%	97%	£5,824	£408,000	£486,000	£575,000	-32.1%
65	95%	94%	£6,266	£451,000	£620,000	£846,000	-17.4%
70	92%	89%	£6,563	£462,000	£778,000	£1,240,000	-9.9%
75	87%	83%	£7,110	£445,000	£923,000	£1,760,000	-5.8%
80	79%	74%	£7,727	£421,000	£1,100,000	£2,510,000	-3.2%
85	68%	62%	£8,423	£389,000	£1,320,000	£3,600,000	-1.5%
89	57%	49%	£6,632	£356,000	£1,540,000	£4,820,000	-0.6%
90	53%	46%	£6,747	£350,000	£1,600,000	£5,190,000	-0.4%
95	35%	29%	£7,366	£320,000	£1,970,000	£7,560,000	0.2%
100	18%	14%	£8,064	£281,000	£2,440,000	£11,000,000	0.8%
105	6%	5%	£8,853	£230,000	£3,030,000	£16,100,000	1.2%
Age Pension Fund Depleted				>105	>105	>105	

EXISTING SCHEME PENSION BENEFITS

The pension benefits accrued in the American Express UK Pension Plan are comprised of a number of separate elements, or slices of pension that are treated differently by the scheme or have different legislation governing their behaviour.

The following details the types of pension benefit that were accrued and the different slices of benefit within each type along with details of how they increase before and after retirement.

Guaranteed Minimum Pension (GMP)

Post 88 GMP

Pension at 30 September 2002	£461.76
Increases before age 60	4.5% per annum
Increases after age 60	CPI (max 3%) per annum

GMP is not payable before age 60. When you retire before this age, the scheme will pay a pension in lieu of the GMP (known as a GMP Bridge). For details of this see the 'Data Used for the report' section at the back of the analysis.

Other Scheme Pension Benefits

Post 1997 Supplementary Pension

Pension at 30 September 2002	£202.43
Increases before retirement	No revaluation
Increases after retirement	RPI (max 5%)

Pre 1997 Supplementary Pension

Pension at 30 September 2002	£216.74
Increases before retirement	No revaluation
Increases after retirement	No escalation

Pre 97

Pension at 30 September 2002	£6,299.82
Increases before retirement	Statutory Orders (5% cap)
Increases after retirement	No escalation

Post 97

Pension at 30 September 2002	£6,315.07
Increases before retirement	Statutory Orders (5% cap)
Increases after retirement	RPI (max 5%)

Transferred-in Benefits

There are no fixed transferred-in benefits although there may be some added years' service included in the pension benefits listed above.

EXISTING SCHEME TAX FREE CASH (PCLS)

The scheme rules permit some pension to be exchanged for a tax free cash sum up to the maximum permitted by HM Revenue & Customs (HMRC).

This is otherwise known as pension commencement lump sum (PCLS). Whether this amount is completely tax-free will depend upon your remaining lifetime allowance.

The amount of cash available depends on the total value at retirement of the pension benefits, together with the rate at which the Existing Scheme exchanges pension benefits for cash; this is known as the commutation rate.

TRANSFER VALUE

You have been offered a transfer value of £483,966.77, in lieu of benefits under the Existing Scheme, which can be invested into a Personal Pension contract.

ADDITIONAL VOLUNTARY CONTRIBUTIONS

In addition to the Existing Scheme transfer value of £483,966.77, a further amount of £67,126 exists. This represents in scheme Additional Voluntary Contributions that can be transferred separately or left within the scheme. As these AVC's are Money Purchase amounts, they have been excluded from the transfer analysis and critical yield calculations.

TRANSFER ALTERNATIVES

These benefits, apart from being left within your existing scheme, can be transferred to a Personal Pension Plan or a Section 32 contract.

Personal Pension Plan Benefits

In a Personal Pension the benefits at retirement are determined by how the transfer value has grown in the period to retirement, together with the annuity rates available at retirement to convert the pension fund into annual pensions.

The size of the pension fund also impacts the amount of death benefits and cash lump sums payable.

Personal Pension Plan - Escalation of Benefits from Retirement

In a Personal Pension Plan, at retirement the member would be able to choose the rate of pension increase.

For comparison purposes, the Personal Pension benefits are assumed to increase on a basis that matches the Existing Scheme as far as reasonably possible. Specifically, the Existing Scheme may have different slices of benefits with different escalation rates, whereas in reality, one annuity shape would be purchased in the Personal Pension. Therefore, the TVAS report chooses for the Personal Pension a single annuity shape matching the largest slice of benefit at retirement under the Existing Scheme.

Personal Pension Plan - Tax Free Cash Sum

The tax free cash sum is calculated as 25% of the entire pension fund.

Section 32 Plan Benefits

The benefits in a Section 32 contract are also determined by the fund value available at retirement, which is in turn used to purchase pension benefits, death benefits and cash lump sums.

In addition the Section 32 contract treats any Guaranteed Minimum Pension (GMP) benefits in a similar way to the Existing Scheme and must ensure at least this level of pension is paid at age 60.

For the purposes of this report, no comparison has been made of the benefits on transfer to a Section 32 contract.

BENEFITS ON DEATH BEFORE RETIREMENT

Existing Scheme

No lump sum is payable.

In the event of your death before retirement a Spouse's Pension is payable. This spouse's pension would be 50% of the member's pension.

Personal Pension

Where a Personal Pension Plan has been established as a result of a transfer from a Final Salary Scheme, the entire fund will be paid as a lump sum although there may be an option to provide a pension with some or all of the lump sum.

BENEFITS ON DEATH AFTER RETIREMENT

Existing Scheme

The Existing Scheme member's pension will continue to be paid for a minimum of 5 years from the date of retirement.

Given your current marital status, on your death in retirement a spouse's pension of 50% would be payable based on the member's pension prior to commutation.

Personal Pension

In a Personal Pension the member chooses at retirement the style of benefit they wish to take, including the size of any spouse's pension.

For illustration purposes this report assumes a similar level of spouse's pension would be chosen to that in the Existing Scheme. Were a higher spouse's pension chosen, the amount of member's pension that could be purchased would be smaller and vice versa.

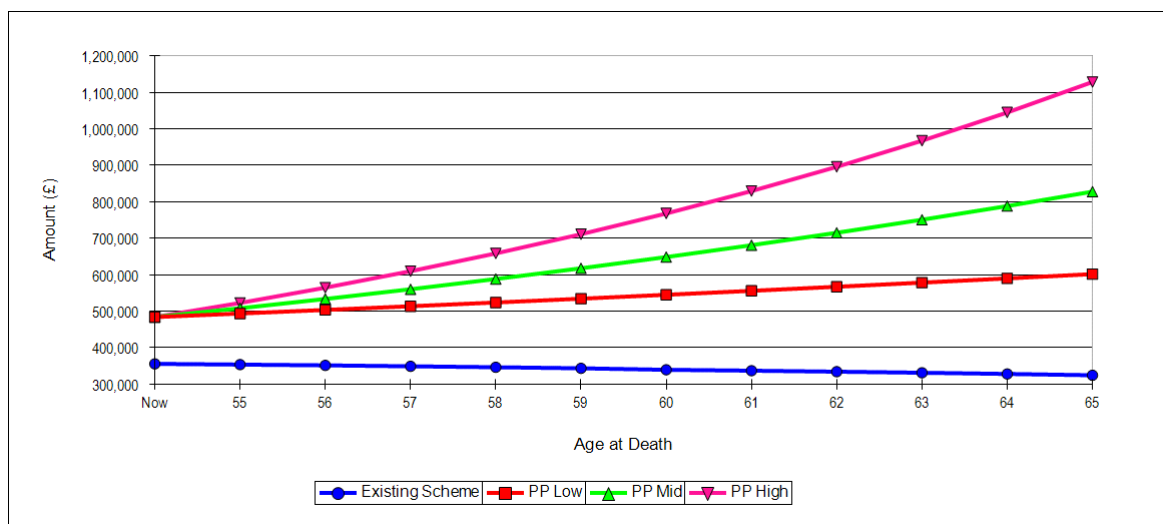
DEATH BENEFIT COMPARISONS

Death Before Retirement

Assuming Death	Benefit Payable	Existing Scheme	Personal Pension		
			Low	Mid	High
Immediately	Lump Sum	£0	£483,967	£483,967	£483,967
	Annual Pension	£9,384	£0	£0	£0
At age 57	Lump Sum	£0	£513,589	£560,252	£609,659
	Annual Pension	£9,993	£0	£0	£0
At age 65	Lump Sum	£0	£601,752	£827,747	£1,128,436
	Annual Pension	£11,943	£0	£0	£0

Capitalised Value of Death Benefits Before Retirement

To simplify the comparison of benefits payable on death before retirement, the graph below shows the capital cost of providing all projected death benefits from the Existing Scheme and the projected fund values that could be achieved by a Personal Pension.



PENSION PROTECTION FUND

The Pension Protection Fund (PPF) offers an “insurance scheme” to help provide a minimum level of pension should a pension scheme get into serious financial difficulty. It is funded by a series of levies applied to all final salary pension schemes. It should be noted that the management body of the PPF have the right to reduce the level of compensation being paid from the scheme should the PPF itself suffer financial hardship. The government does NOT underwrite the scheme.

Broadly speaking, those people below the normal retirement age of the scheme when the PPF is appointed will receive 90% of their accrued benefits immediately before the assessment date (subject to a review of the rules of the scheme by the PPF), whilst those past the normal retirement age of the scheme at this date would receive 100% of their accrued benefits.

In the PPF, the Total Pension is revalued from the PPF assessment date to the normal retirement date in line with statutory orders revaluation. GMP benefits do not receive separate revaluation. Benefits relating to Post April 1997 service will increase in payment (in line with CPI capped at 2.5%), whereas no increase in payment will be made in respect of any pension accrued before 1997.

This compensation is subject to an overall cap (currently £37,420.42 for those retiring at age 65) which will be increased each year, and adjusted to the age at which compensation comes into payment (future increases to the cap are assumed in line with AEI increases).

The PPF is not applicable if your benefits are held within a Public Sector Pension Scheme. This type of scheme is dependent upon income from Local and/or Central Government for its funding. Generally, therefore, a greater degree of security is available.

The following pages compare the benefits that the Pension Protection Fund might secure against those that the existing scheme provide.

The comparison is performed assuming the scheme apply to the Pension Protection Fund as at the date of this report. Comparisons are provided assuming retirement at both age 65 and age 57.

PENSION PROTECTION FUND COMPARISONS

The Normal Retirement Age of the Scheme is 65 and these comparisons assume the scheme applies to the PPF on 17 October 2016. 48% of your pension benefits relate to post April 1997 service and will receive escalation in the PPF.

Assuming retirement at age 65

Full Pension:	Pension Today	Pension at 65	Capitalised Value of Benefits	Critical Yield in Personal Pension
Existing Scheme	£18,768 pa	£24,305 pa	£701,532	3.4%
PPF	£16,891 pa (90%)	£20,912 pa (86%)	£548,421 (78%)	1.1%

Alternatively:

Cash + Reduced Pension:	Tax Free Cash Sum at age 65	+ Reduced Pension at 65	Capitalised Value of Benefits	Critical Yield in Personal Pension
Existing Scheme	£101,018	+ £14,962 pa	£568,448	1.5%
PPF	£113,582 (112%)	+ £15,684 pa (105%)	£521,132 (92%)	0.7%

Commutation rates used to convert pension into tax free cash are 11.037 (Existing Scheme) and 21.725 (PPF).

Assuming early retirement at age 57

Any applicable early retirement factors have been applied on both the existing scheme and the PPF in the calculation of the pension at age 57.

Full Pension:	Pension Today	Pension at 57	Capitalised Value of Benefits	Critical Yield in Personal Pension
Existing Scheme	£18,768 p.a.	£15,282 p.a.	£560,782	5.0%
PPF	£16,891 p.a. (90%)	£17,925 p.a. (117%)	£577,404 (103%)	6.1%

Alternatively:

Cash + Reduced Pension:	Tax Free Cash Sum at 57	+ Reduced Pension at 57	Capitalised Value of Benefits	Critical Yield in Personal Pension
Existing Scheme	£68,756	+ £10,203 p.a.	£466,457	-1.2%
PPF	£123,024 (179%)	+ £13,444 p.a. (132%)	£556,077 (119%)	4.7%

Commutation rates used to convert pension into tax free cash are 13.837 (Existing Scheme) and 27.452 (PPF).

OTHER MATTERS

Transfer Value Expiry Date

The transfer value quoted by the Existing Scheme is due to expire on 31 October 2016. If a transfer of benefits proceeds after this date a revised value will need to be quoted by the scheme trustees.

Ill Health Retirement Benefits

The majority of final salary occupational pension schemes have the scope to pay enhanced benefits to members who wish to retire early due to ill-health. The level of enhancement, and indeed, whether any such enhancement will be paid is usually at the discretion of the scheme trustees on a case by case basis. This potential benefit will however be lost upon transfer to a Personal Pension.

Equalisation Issues

Male and Female retirement ages for the Existing Scheme were equalised at age 65 on 1 April 1988.

If the existing scheme benefits include GMP; it is important to note that the DWP has re-affirmed its intention to press ahead with regulations to make clear that there is a requirement on schemes to equalise GMPs. It is unclear, however, when the legislative changes will be made.

Scheme Status

The existing Scheme is closed to new and active members. Active scheme members can no longer accrue Scheme benefits and are therefore classed as deferred.

Funding Position

The Existing Scheme is known to be in deficit. The extent to which members benefits are being restricted should be discussed with the trustees of the Existing Scheme.

Transfer Club

It is understood that the Existing Scheme is not a member of a transfer club, therefore, this is not an issue that needs further consideration.

ASSUMPTIONS

This report uses various assumptions which are prescribed by the Industry's Regulators and are subject to regular review.

Valuing Scheme Benefits

The Annuity Interest Rate is the annual rate of investment return used in calculating the Annuity Rates for the evaluation of scheme benefits and for converting the projected fund in the individual plan into a pension. The individual plan's pension amount assumes payments are made monthly in advance.

The mortality rates used to determine the annuity are based on the CMI tables PCMA00 and PCFA00 including mortality improvements and are derived from each of the male and female annual mortality projections models in equal parts. No allowance is made in these annuity rates for enhanced or ill health annuities.

Existing Scheme Assumptions

Where benefit increases are linked to an Index, the actual historic increases are used where known and assumptions about the future growth in the index are applied for future increases.

For pre-retirement increases, a separate check is made to ensure that the revaluation over the whole period from date of leaving to retirement is at least equal to any minimum rate and not greater than any maximum capping rate.

The following table includes the assumptions used for the most common types of increases.

	Scheme Projections	Critical Yields
Annuity Interest Rate	n/a	2.1%
Retail Price Index	2.5%	3.55%
Retail Price Index capped at 2.5%	2.5%	2.5%
Retail Price Index capped at 3%	2.5%	3%
Retail Price Index capped at 5%	2.5%	3.55%
Consumer Price Index	2%	3.03%
Consumer Price Index capped at 2.5%	2%	2.5%
Consumer Price Index capped at 3%	2%	3%
Consumer Price Index capped at 5%	2%	3.03%
Statutory Orders	2%	n/a
National Average Earnings Index	4%	4%

Personal Pension Assumptions

	Low	Mid	High
Annuity Interest Rate	0.1%	2.1%	4.1%
Fund Growth Rate	2%	5%	8%

Life Expectancy

The mortality rates used to determine life expectancy and survival probabilities are based on the UK 2012-based National Population Projections life tables published by the Office for National Statistics.

The life tables for 2013 onwards are based on projected mortality rates from the UK 2012-based National Population Projections. Projections are uncertain and become increasingly so the further they are carried forward in time, but in principle, are allowing for future improvements in mortality based on your gender and year of birth.

NOTES AND DATA USED FOR THE REPORT

There are no Notes for this report.

Data Used

Personal Information

Client Name	Mrs L Jones
Date of Birth	16 October 1962
Gender	Female
National Insurance No.	NA373920B
Member Reference No.	528582
Marital status	Married
Partner date of birth	19 September 1963
Same partner as at date of leaving	Yes
Current Employment Status	Employed
Joined Scheme	1 November 1992
Left Scheme	30 September 2002
Final Pensionable Earnings	£94,800
Tax Rate in Retirement	45%

Scheme Information

Scheme Name	American Express UK Pension Plan
Scheme Category	Pre '96, Post '97 or The Plan
Contracted Out Pre 4/97	Yes
GMP Bridge	Yes (Assumed)
Contracted Out Post 4/97	Yes
Basis of Post 97 Contracting Out	Reference Scheme S9(2b) Rights
Accrual Rate	60ths(Assumed)
Scheme Status	Closed To New And Active Members
Funding Position	In Deficit
Pensionable Service Basis	Years and Months Rounded Down
Transfer Club Member	No
Scheme Benefits have money purchase underpin	No
Can money purchase AVCs be left in the scheme?	Yes

Retirement Ages

Scheme Retirement Age	65
Earliest Retirement Age allowed by scheme	50
Latest Retirement Age allowed by scheme	75 (Assumed)
Retirement Ages Equalised	Yes
Date Retirement Ages Equalised	1 April 1988
Report illustration age A	65
Report illustration age B	57

Cash by Commutation

Does the scheme allow cash by commutation?	Yes
Does Scheme pay HMRC Post A Day maximum?	Yes
Protected Cash @ 5/4/2006	£0(Assumed)
Escalation applied to Pension before Commutation?	No(Assumed)
Bulk Transfer Cash Protection?	No(Assumed)

Death Benefits

Is the Spouses Pension only payable to the spouse to whom the member was married at date of leaving? No

Death Before Retirement

No lump sum is payable
Spouse's Pension - Percentage of Total Pension 50%

Death After Retirement

Guarantee Period 5 years
Spouse's Pension – Percentage of Total Pension 50%
Spouse's Pension based on Pension Before Commutation? Yes

Transfer Value

Total Transfer Value £483,966.77
Post 97 Contracted Out TV (included in Total TV) £286,701.77

Date of Transfer Value 31 July 2016
Transfer Value Guaranteed Until 31 October 2016
Transfer Value Basis Standard TV Only
Members Contributions £0
Additional Money Purchase AVCs £67,126

Pension Providers

Personal Pension Product No Charges

Discretionary Increases

Discretionary Increases Before Retirement

Benefits before retirement are not subject to discretionary increases.

Discretionary Increases After Retirement

Benefits after retirement are not subject to discretionary increases.

Pension Benefits

Post 1997 Supplementary Pension

- £202.43 as at 30 September 2002.
- 'Pre 97 Excess Pension' slice that does not revalue and escalates by RPI (max 5%).
- This slice ceases at age 67.
- Revaluation basis is 'Whole Years Rounded Down'
- Full franking is applied before age 65 with franking of escalation only applied on or after this age.
- On retirement at age 57 the slice is revalued to this age and a factor of 0.739 is applied.
- This slice is non-commutable.

Pre 1997 Supplementary Pension

- £216.74 as at 30 September 2002.
- 'Pre 97 Excess Pension' slice that does not revalue and does not escalate.
- This slice ceases at age 67.
- Revaluation basis is 'Whole Years Rounded Down'
- Full franking is applied before age 65 with franking of escalation only applied on or after this age.
- On retirement at age 57 the slice is revalued to this age and a factor of 0.739 is applied.
- This slice is non-commutable.

Pre 97

- £6,299.82 as at 30 September 2002.
- 'Pre 97 Excess Pension' slice that revalues by Statutory Orders (5% cap) and does not escalate.
- Full franking is applied before age 65 with franking of escalation only applied on or after this age.
- On retirement at age 57 the slice is revalued to this age and a factor of 0.739 is applied.
- Commutation factor at age 65 is 9.46 and at age 57 is 11.86.

Post 97

- £6,315.07 as at 30 September 2002.
- 'Post 97 Pension' slice that revalues by Statutory Orders (5% cap) and escalates by RPI (max 5%).
- Full franking is applied before age 65 with franking of escalation only applied on or after this age.
- On retirement at age 57 the slice is revalued to this age and a factor of 0.739 is applied.
- Commutation factor at age 65 is 12.61 and at age 57 is 15.81.

Post 88 GMP

- £461.76 as at 30 September 2002.
- 'Post 88 GMP' slice that revalues by GMP Fixed Rate and escalates by Statutory Minimum (GMP).
- This slice starts at age 60.
- Revaluation basis is 'Tax Years'
- This slice is non-commutable.

GMP Bridge (Post 88 GMP)

- £461.76 as at 30 September 2002.
- 'GMP Bridge Auto Valued' slice that revalues by GMP Fixed Rate and does not escalate.
- Revaluation basis is 'Tax Years'
- On retirement at age 57 the slice is revalued to this age and a factor of 0.99 is applied.
- This slice is non-commutable.

Appendix Two

Validation Sheet

Validation Report For Mrs L Jones

Client ID: 10002591

Ref: NA373920B

American Express UK Pension Plan

Number of Problems: 0

Number of Warnings: 9

Please note this report does not show any validation warnings relating to the Retirement Benefits Advanced screen as this user option has been disabled.

Member specific validation problems (these will need to be fixed in order to run a report)

Ref	Message
	There are no validation problems for this member

Member specific validation warnings (report will make assumptions if no changes made)

Ref	Message
149	The Scheme Accrual Rate has not been entered, assuming the scheme accrual rate is 60ths.
153	The Index Month Used by Scheme has not been entered. Assuming the Scheme use the September index.
194	The scheme allows Tax Free Cash by commuting the pension. However, whether the escalation of the pension in payment is based upon the pension before commutation has not been selected, assuming escalation is based upon the commuted pension.
261	No protected cash sum as at 5/4/2006 has been entered. The system will assume no such protection is available.
263	Whether the client can protect tax free cash via a bulk transfer to a PPP/GPP/SIPP has not been confirmed. The system will assume no such protection is available.
3081	The scheme allows late retirement, but the latest age at which the member is allowed to retire has not been entered. Assuming age 75.
3090	The scheme is contracted out pre 97 but whether a GMP bridge applies has not been specified. Assuming GMP bridge applies.
6002	A GMP bridge has been specified for the scheme, but no GMP Bridge slice has been entered. GMP Bridge details are being assumed.

Slice specific validation problems (these will need to be fixed in order to run a report)

Ref	Message
	There are no validation problems for this member

Slice specific validation warnings (report will make assumptions if no changes made)

Ref	Message
Post 88 GMP:	
5065	The 'factor applies to benefits revalued to' field has not been entered. Assuming benefits revalue to retirement age.