

Valuation Report as at 31 December 1999 (cont.)

- (d) Negative values have been eliminated from the liability. Additionally, all negative values which would arise at future valuations using the current basis projected forward have also been eliminated.
- (e) No reserve for future bonuses is required.
- (f) No reserve for tax on unrealised capital gains is required, as only pension business is written
- (g) No reserve for investment performance guarantees is held as the only investment performance guarantee is that the unit price of the Pru-Link Cash Fund will not go down. Units of this fund are ultimately invested in units of the GILP Cash Fund, where the practice is to invest only in short term assets.
- (h) An additional reserve of £1,610,000 is held in respect of :-

	£
Resilience (Regulation 75(b))	470,000
Cashflow Mismatching (Regulation 75(a))	290,000
Other contingencies	<u>850,000</u>
Total	1,610,000

- (2) Not applicable.
- 7 (1) The rates of interest and tables of mortality assumed in the valuation are shown in 9(a) below and Note 5101.
- (2) The mortality tables used are published tables.
- (3) All business is written in the UK and UK based mortality tables have been used.
- (4) All annuity business is wholly reassured (see 12 below). The mortality assumptions for annuities in payment allow for future mortality improvement as follows :
 

Business reassured with PAL : At the rates in the published mortality tables used (year of birth tables are used).

Business reassured with PACL : Using the mortality table on a calendar year basis, the calendar year being 2010.
- (5) No allowance has been made or reserve held, in addition to the assumptions in 7(4) above, in respect of possible changes in the incidence of disease or development in medical science.
- (6) The scenarios tested were:
  - (a) 20% reduction in fixed interest yields, 25% reduction in the real yields on index-linked gilts, and a 10% fall in equity and property values
  - (b) 3 percentage points increase in fixed interest yields, 25% increase in the real yields on index-linked gilts, 25% fall in equity values, and a 20% fall in property values
  - (c) 10% decrease in fixed interest yields, 10% increase in the real yields on index-linked gilts, 25% fall in equity values, and a 20% fall in property values

Scenario (b) proved to be the most onerous.
- (7) An amount of £290,000 is included in the sterling reserves for cashflow mismatching. This has been determined by assuming that the redemption proceeds from existing assets can be reinvested, where necessary, at a yield of 80% of the current yield, and then comparing the expense reserve outgo against the resultant asset income to check that the additional reserve is sufficient to fund any shortfalls.

**Valuation Report as at 31 December 1999 (cont.)**

- (8) An additional reserve of £470,000 has been made. This was calculated as follows:
- (a) No changes in assumptions other than those stated in 7(6)(b) above, and interest rate changes as shown in Form 57 were made.
  - (b) The non unit reserves were recalculated at the revised valuation interest rates and levels of fund management charge income.
  - (c) (i) There was a £72,000 increase in the aggregate amount of the long term liabilities.
  - (ii) The assets allocated to match such liabilities have reduced in value by £398,000.
- (9) Not applicable.
8. (a) Not applicable.
- (b) Specific allowance is made for expenses of payment for all immediate annuities as indicated in note 5102.
  - (c) Not applicable.
  - (d) Not applicable.
9. (a) For group and individual linked business the unit liability has been obtained by valuing those units allocated to policyholders at the valuation unit price. This price is based on the mid-market price of the assets and includes investment income received.

The non unit liability in respect of PACL Group Business reinsurance accepted is that amount required to cover the loss likely to arise in the period of notice required before any increase in charges can take effect.

In determining the non-unit liability for GILP and PIA SAS business, and Pru-Link Retirement Plan (PLRP) policies, the following parameters were used:

Valuation interest	4.50%
Fund growth rate	4.50% (before reduction for fund charge)
Renewal expenses:	GILP £2,220,000 p.a. plus £660 p.a. per scheme (of which £1,120,000 p.a. is covered by charges for additional administration services) PIA £85,000 p.a. plus £220 p.a. per scheme PLRP - per policy for premium-paying policies £34.50 p.a. - per policy for other policies £23.00 p.a. - per claim £39.00 Reassured business £330,000 p.a.
Expense inflation	3.25%
Fund charge	The actual charged rate less 0.1% for actively managed funds (0.035% for passively managed funds) in respect of PPM investment management fees charged to PPL. The charged rate is initially 0.75% p.a. for PIA and Prulink, 0.25% for reassured business, and varies by fund for GILP (in the range 0.0% to 0.35%)

