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Case Study Two

Trust Variation

Mr. A is 75 years old and is the beneficiary under his brothers' will. He has a lifetime interest in property, which is worth £150,000. On Mr. A's death, the property passes to his niece and nephew.

He has agreed to give up his interest in the property in return for a cash settlement. This creates the requirement to calculate the current cash value of his lifetime interest in the property. To do this, it is necessary to consider how long he could expect to receive the income, the level of that income over the period, and its equivalent cash value today.
To take proper account of Mr. A's life expectancy his professional advisers commissioned a PMC Mortality Assessment, this looked at factors such as Mr. A's medical history and current state of health. Through PMC, an independent actuary was appointed to do the actuarial calculations. The actuary needed to make some assumptions about the future. In particular:

- The average life expectancy of a 75 year old male
- Whether Mr. A has the life expectancy of an average 75 year old, or is his health better or worse than that of an average 75 year old

The conclusion formed one assumption required by the actuary. The result was a professional report by an independent actuary that gave a cash value, which was calculated applying sound actuarial principles and was therefore acceptable to all parties. The value took into account an assessment of life expectancy and included professionally based assumptions concerning likely interest rates over the period from now to an assumed date of death.

In this example, it was not necessary to obtain any medical reports to make the health assessment. The health assessment and actuarial reports were therefore completed within a week of receiving the completed assessment forms.

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