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Case Study Three

Life Dependent Interest

Several beneficiaries received an annual income from a trust fund. The income ceased on their respective deaths. Beneficiary A was a married male aged 60, his wife was 57. They had no intention of having children or adopting. Beneficiary B was a lady of 65 who had no children. Four other beneficiaries were young people, who were likely to have children that in turn would receive an income from the trust fund during their lifetimes.

Beneficiaries A & B were considering relinquishing their interests in the trust fund in exchange for a fair cash value. The requirement was to place a fair value on the income which beneficiaries A & B were likely to receive. This required actuarial calculations based on several assumptions including, the likely total number of beneficiaries that could be entitled to receive an income during the lifetimes of beneficiaries A & B and the life expectancy of all the beneficiaries.

Beneficiary B was known to have some health problems. She suffered from emphysema as a result of smoking, although she had not smoked for more than ten years. Other known factors were that she was somewhat overweight and took medication for raised blood pressure and to lower her cholesterol level.

Our mortality assessment of beneficiary B formed one assumption that the actuary used in valuing the lifetime interests of beneficiaries A & B. The resulting calculations and report were recognised by all parties to be fair, reasonable and based on well considered assumptions.