GN10: Valuation of Reversions and Life Interests

Classification
Recommended Practice

Legislation or Authority
None

Application
Any Actuary required to place a present value upon an uncertain future capital receipt or income stream arising from a will, settlement or intestacy.

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Status
Approved prior to Due Process being introduced.

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1.0	03.11.67
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Ceased to apply from 30.11.08

1 Introduction

1.1 An actuary may be called upon to place a present value upon an uncertain future capital receipt or income stream arising from a will, settlement or intestacy. Within this broad category of work could also be included interests arising under life policies and similar contracts.

2 Purposes of Valuations

2.1 A valuation may be required for a number of purposes. These broadly fall into two categories. The first involves rearrangement of the interests in a particular fund often involving a complete apportionment of the assets between the interested parties. The feature of such valuations is that the relative values placed on the various interests may be of more significance than the absolute values and market values are likely to be inappropriate. The second category involves valuations of an interest in isolation for purchase or sale, for tax or stamp duty purposes, or for other purposes, such as certificate of means for membership of Lloyd's. Valuation for one purpose may be inappropriate for another and, in particular, the statutory actuarial basis in respect of intestacies in England and Wales will only be appropriate in the circumstances where the statutory right exists.

3 Contact With Other Professions

3.1 Reversionary work frequently involves more than one profession and a range of professional knowledge of, for example, actuarial, legal and taxation matters. Legal and taxation matters will almost always impact upon the work of the actuary.

3.2 Other professional input will usually be involved both in arriving at the instructions given to the actuary and thereafter in the use to which the actuary's calculations may be put. The actuary has a duty therefore to make sure that those instructing him give him clear instructions and have, in particular, identified the purpose underlying the instructions given to the actuary. Considerable variation can be encountered in the degree of specialisation of other professionals involved, and the actuary may have to take account of the particular situation.

3.3 As an example of a possible pitfall, an actuary might value an interest for inheritance tax purposes in circumstances where the value is not taxable. Instructions to do so would not be unusual. If an actuary should follow such instructions and a loss results, it is possible that the actuary might then be subject to legal proceedings. The risk could be greater where instructions are accepted other than from a lawyer or accountant. At the other extreme, complex trust rearrangements often involve solicitors and at least one Counsel. The actuary may be instructed to make valuations on a specific basis and then have very little influence on the final rearrangement. Even here, the actuary should do his best to ensure that the requested valuations are reasonably appropriate for the purpose and if not to state so.

3.4 The actuary should bear in mind that several parties, with distinctly different interests, may enter into rearrangements, and will rely on his report. He may therefore wish to recommend that certain parties be supplied with a copy of his full report. (See paragraph 10 of the Memorandum on Professional Conduct).

4 The Report

4.1 The actuary should be aware that his professional colleagues might produce widely differing results and that more than one actuary may be involved in a particular case. Other professions are aware of such possible differences, but seldom of the possible extent. For instance, one actuary might use a gross interest rate to value a reversionary interest held by a charity while another actuary would not. The valuation report should list the sources of information on which the calculations are based and briefly describe that information. Practice varies as to the extent to which the actuarial basis is set out. Certainly, if elements of the actuarial basis are prescribed by instructing solicitors or by the court, the valuation report will say so.

5 Financial Services Act

5.1 There may be uncertainty as to whether advice given constitutes investment advice within the meaning of Financial Services Act 1986 and whether authorisation is necessary. Advice on the merits of a potential purchase is likely to be investment advice, while it is thought that impartial advice as to values relevant to partition would not constitute investment advice. Intermediate situations are unclear.