

# The Benefits

## GAD Calculations - How they work

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The Government Actuary's Dept (GAD) has produced tables to calculate a "basis amount". This basis amount is used to calculate the maximum income that can be drawn from an unsecured or alternatively secured pension fund. This calculated income is designed to be roughly equivalent to the lifetime annuity that could have been purchased by the fund

## GAD Calculations - How they work

### Example

AGE	Gilt Index Yield					
	4.00	4.25	4.5	4.75	5.00	5.25
70	£80	£81	£83	£85	£87	£88
71	£83	£84	£86	£88	£89	£91
72	£86	£87	£89	£91	£93	£94
73	£89	£91	£93	£94	£96	£98
74	£93	£95	£96	£98	£100	£101
75 or over	£97	£99	£100	£102	£104	£106

\* The above table is an extract from the published tables for men and gives the "basis amount" rate per £1000 of fund for drawdown. This rate is known colloquially as the "GAD rate". There are separate tables for women and for dependent children. The table for dependent children does not assume mortality and is designed to ensure that the pension fund is depleted by age 23, i.e. the age that dependency finishes.

The Gilt Index Yield is reviewed monthly and is the Gross Redemption Yield on (15 year) UK gilts

### How to calculate the basis amount

The first step is to cross-reference the member's age with the prevailing yield. In the case of alternatively secured pension the member's age is always taken as 75. A yield of 4.5% would produce, for a 70 year old man taking USP and an 80 year old man taking ASP, GAD rates of £83 and £100, respectively, per £1,000 of designated fund value.

The second step is to apply the GAD rate to the value of the pension fund to calculate the "basis amount".

Say that the value of the pension fund is £100,000 (after the payment of the Pension Commencement Lump Sum (PCLS) in the case of USP). The respective basis amounts would be £8,300 and £10,000.

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