

Example 1

The first example assumes that the settlor was a woman aged 75 next birthday when the Discounted Gift Scheme was effected with no addition to age based on medical underwriting. At the ten year anniversary the underlying value of the bond is £1,000,000. The withdrawals retained by the settlor are equal to 5% of the original £500,000 investment, payable monthly in arrears.

Calculation

The open market value equals

The fund value at the ten year anniversary $\times \bar{A}_x$, less

The annual rate of withdrawals $\times a_x^{(p)}$, where

\bar{A}_x is an immediate assurance factor, payable immediately on the death of a life aged x next birthday, and

$a_x^{(p)}$ is an annuity factor for an annuity payable in arrears at a frequency of p times per year for the term of a life aged x next birthday.

A deduction is made from this value to represent the purchaser's costs associated with the legal formalities connected with completing the purchase. The figures are:

$$\begin{array}{rclclcl} \pounds 1,000,000 \times \bar{A}_{85} & = & \pounds 1,000,000 \times 0.70301 & = & \pounds 703,010, \text{ less} \\ \pounds 25,000 \times a_{85}^{(12)} & = & \pounds 25,000 \times 6.710 & = & \pounds 167,750 \end{array}$$

Which gives a value of £535,260.

From this value a deduction of approximately £1,000 is made in respect of the purchaser's costs, to give a net value of £534,250.

Example 2

The facts are as in example 1, except that an age addition of 4 years was made based on medical underwriting when the Discounted Gift Scheme was effected.

Calculation

As the settlor was aged 75 next birthday when the Discounted Gift Scheme was effected and an age addition of 4 years was applied, the effective age to be used at the ten year anniversary is 89 next birthday. The calculations become:

$$\begin{array}{rclclcl} \pounds 1,000,000 \times \bar{A}_{89} & = & \pounds 1,000,000 \times 0.76160 & = & \pounds 761,600, \text{ less} \\ \pounds 25,000 \times a_{89}^{(12)} & = & \pounds 25,000 \times 5.379 & = & \pounds 134,475 \end{array}$$

Which gives a value of £627,125.

From this value a deduction of approximately £1,000 is made in respect of the purchaser's costs, to give a net value of £626,125.

Example 3

The facts are as example 1, except that the settlor was a man aged 83 when the Discounted Gift Scheme was effected. No age addition was made as a result of medical underwriting.

Calculation

As the settlor was aged 83 next birthday when the Discounted Gift Scheme was effected, the calculations are based on an age next birthday of 93 at the ten year anniversary. The calculations are:

$$\begin{array}{rclclcl} \pounds 1,000,000 \times \bar{A}_{93} & = & \pounds 1,000,000 \times 0.81385 & = & \pounds 813,850, \text{ less} \\ \pounds 25,000 \times a_{93}^{(12)} & = & \pounds 25,000 \times 4.192 & = & \pounds 104,800 \end{array}$$

Which gives a value of £709,050.

From this value a deduction of approximately £1,000 is made in respect of the purchaser's costs, to give a net value of £708,050.

Jointly effected Discounted Gift Schemes

Many Discounted Gift Schemes are effected jointly by two settlors with the retained rights payable until the death of the survivor of both settlors. Section 44(2) provides that where more than one person is the settlor in relation to a settlement then, for purposes including a ten year anniversary charge, the property is treated as being comprised in separate settlements. The value of the fund will be divided between the separate settlements in the proportion that the original funds were provided by each settlor, usually equally. The valuation of the fund needs to take into account that the fund will not be available to the open market purchaser until after the death of both settlors. The valuation of the expected withdrawals will need to take into account whether or not the full payments continue until the death of the survivor of both settlors.

Example

A husband age 78 and his wife aged 75 each put £500,000 into a Discounted Gift Scheme from which withdrawals of £50,000 per year, paid monthly in arrears, are to be made until the death of the survivor. At the ten year anniversary the fund is worth £2,000,000.

The overall settlement will be treated as two separate settlements in view of s.44(2). The £2,000,000 is apportioned equally between the two settlements. For **each** settlement the calculations are:

$$\begin{aligned} \text{£1,000,000} \times \bar{A}_{88.85} &= \text{£1,000,000} \times 0.63642 &= \text{£636,420, less} \\ \text{£25,000} \times a_{88.85}^{(12)} &= \text{£25,000} \times 8.223 &= \text{£205,575} \end{aligned}$$

Which gives a value of £430,845.

From this value a deduction of approximately £1,000 is made in respect of the purchaser's costs, to give a net value of £429,850.