



## PENSION APPRAISERS ONLINE, INC.

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PensionAppraisalDesk  
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# PENSION VALUATION REPORT

**Pensionholder:** Janet Jones

**Requested By:**

Jonathan Jones, Esq.  
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**Purpose of this Appraisal:** To establish a value for a pension so that the parties involved may divide the retirement benefits using the Immediate Offset Method. The Immediate Offset Method of dividing a pension compares the value of the pension to the value of the other marital property. The employee will end up keeping his/her pension, and the spouse receives another asset of equal value in lieu of his/her interest in the pension. If the value of the pension is unknown, it is impossible to use the Immediate Offset Method to devise an accurate property division.

**Non-Conformity with Requirements of the Actuarial Standards of Practice No. 34:** Present value determinations are highly dependent upon the assumptions employed. This report has been computer generated and the answers yielded are a direct result of the information input by the requestor. None of the information has been reviewed for practicability and reasonableness by a Pension Appraisers representative. Therefore, this report has not been prepared in conformity with the requirements of the Actuarial Standards of Practice No. 34. The Pension Committee of the Actuarial Standards Board of the American Academy of Actuaries developed the Actuarial Standards of Practice No. 34 for Members and Other Persons Interested in Actuarial Practice Concerning Retirement Plan Benefits in Domestic Relations Actions. Any deficiencies in data may materially affect the results of this appraisal. The fractional rule allocation method has been used to determine the marital coverture portion of the pension.

**\*Based on the information input by the requestor and the assumptions set forth in this report, the present value of the marital portion of the Pensionholder's (Janet Jones) defined pension benefit as of**

**January 15, 2008 is \$ 47,981.73.**

\*Should you determine that the preparation of a Qualified Domestic Relations Order (QDRO) or Domestic Relations Order (DRO) is required for this divorce, please go to <http://www.QdroDesk.com> or call 1-877-770-2270 for these services.

### Information About Pensionholder

The following factual information has been used to calculate the marital portion of the present value of the pensionholder's (or member's or employee's) pension benefits.

**Name:** Janet Jones

**Gender:** Female

**Date of Birth:** March 18, 1971

**Date of Marriage:** May 18, 2000

**Date of Classification:** May 18, 2000

The Date of Classification (Also known as Cut-off Date or The Date the Marriage Ended ) represents the point in time when laws of each state consider that the pensionholder and their spouse no longer can acquire marital property. After this date any property either one acquires is considered their own. The Present Value of the monthly benefit the pensionholder (employee) will receive is very sensitive to this date because it affects and determines the following:

1. The portion of the monthly benefit earned during the marriage.
2. The present value of the monthly benefit earned during the marriage.

The laws for each State vary regarding the Date of Classification. According to the case law in State of California [ In re Hardin, 45 Cal. Rptr. 2d 308 - 1995 ] the date of classification should be the Date of Separation; unless both parties have agreed to use another date.

**Plan Name:** United Corporation Pension Plan

**Plan Participation Date:** May 30, 2001

This is the date the employee began participation in the pension plan. It may be the date the employee started employment. However, some plans can require a waiting period or allow the employee to start participation at the employee's discretion. The Present Value of the monthly benefit the pensionholder (employee) will receive is very sensitive to this date because it affects and determines the following:

1. The amount of the monthly benefit the pensionholder will receive.
2. The portion of the monthly benefit earned during the marriage.

**Age when Benefits Commence:** 65 Years

The Normal Retirement Age represents the point in time (as defined by the pension plan) when the pensionholder (employee) can stop working and start receiving normal retirement benefits. The Present Value of the monthly benefit the pensionholder (employee) will receive is very sensitive to retirement age because it affects and determines the following:

1. The time remaining until benefits commence (unless already retired).
2. The future estimated lifetime of the pensionholder.

The laws for each State vary regarding the Normal Retirement Age to be used for valuing pensions for divorce purposes. According to the case law in the State of California [ In re Oddino, 939 P. 2d 1266 - 1997 ] the Normal Retirement Age should be the earliest age the employee can retire and receive unreduced benefits.

**Date of Monthly Accrued Benefit:** January 15, 2008

This is the accrual date (usually the Date of Classification) through which the benefit has been earned. If the Pensionholder terminated employment it would be the date of termination if prior to the date of classification.

**Monthly Accrued Benefit:** \$ 1,080.70

The accrued (or earned) monthly pension benefit is the monthly benefit payable to the employee at normal retirement age based upon the employee's years of service thru the accrual date. In other words, assuming the employee terminated his/her employment as of the accrual date, the accrued monthly benefit is the amount that would be paid to the employee when he/she reaches normal

retirement age. Most plans have the ability to calculate this amount as of any accrual date requested. Further, in many cases, employees are given annual benefit statements that illustrate their accrued monthly pension benefit as of December 31 of the given year.

**Years of Service:** 6.63 Years

Years of service; calculated from the date of participation to the accrual date. This time period does not take into consideration any interruption in service.

**Analysis**

Following is a detail of the present value calculation based on the data set forth above and the assumptions listed below.

**Method of Valuation:** GATT Appraisal

This approach utilizes Group Annuity Mortality Tables and an interest rate based upon the 30-Year U.S. Treasury Bond Constant Maturity Rate. Present Value is determined as follows:

- (1.) Calculate the amount of the monthly pension benefit assuming the pension holder is at retirement age with a fully vested pension based upon compensation and plan provisions as of the date the marriage ended.
- (2.) The present value analysis of this monthly pension benefit is determined using Group Annuity Mortality Tables to gauge lifespan and the 30-Year Treasury Bond rate for discounting.
- (3.) The present value is reduced to account for the vesting status of the pension holder (if applicable).
- (4.) A coverture fraction is applied (if applicable based upon property model of the state which has jurisdiction over the divorce case).

The appropriateness of the Coverture Fraction depends upon the property model adopted by state court which has jurisdiction over the divorce. There are two basic property models.

A. " All Property Model" - Under this model, the court can divide any interest which constitutes property and is owned by one or both parties on the date of classification. In other words, it doesn't matter when the property was acquired; whether it was before the marriage or during the marriage. Under this model, all property owned on the date the marriage ended (date of classification) would constitute marital property subject to division in the divorce.

B. "Dual Classification Model" - This model is similar to the "all property model" in that in order to be divided in a divorce, the property must be owned by one or both parties on the date the marriage ended. However, the difference is that the property must have been acquired during the period of marriage. Therefore, under this model, only that portion of the pension benefits which were earned during the marriage would be considered marital property subject to division in the divorce. Any portion of the pensions earned before the date marriage would be considered separate property.

The State of California follows the "Dual Classification Model". Therefore, the application of the Coverture Fraction would be considered to be appropriate.

**Valuation Date:** January 15, 2008

The date from which the interest rate used in determining present value is drawn, thereby establishing value as of such date. The valuation date represents the point in time when the pension is being appraised (valued). The Present Value of the monthly benefit the pensionholder (employee) will receive is very sensitive to this date because it affects and determines the following:

1. The age of the pensionholder.
2. The time remaining until benefits commence (unless already retired).
3. The interest rate(s) to be used to calculate the value.
4. The future estimated lifetime of the pensionholder.

The laws for each State vary regarding the Valuation Date. According to the case law in the State of California [ In re Crook, 2 Cal. App. 4th 1606 ] the valuation date should be as close as possible to the Date of Trial; unless both parties have agreed to another date.

**Mortality Tables:** 1994 Group Annuity Mortality Tables for Healthy Females with Projection Scale AA applied for year 2008.

**Interest Rate Assumption:** 4.45 %

This rate is the 30-Year U.S. Treasury Bond Constant Maturity Rate for the month of the Date of Valuation. Interest rates and present value have an inverse relationship. Therefore, a lower interest rate results in a higher present value.

**Cost of Living Adjustment:** 0.00 %

A cost-of-living adjustment is an incremental increase in an individual's monthly retirement benefit, granted to keep the retiree's benefits in line with inflation. This should not be confused with a cost-of-living adjustment (a raise) granted to an employee before retirement. When employed in a present value analysis, a COLA lowers the interest rate assumption(s). Interest rates and present value have an inverse relationship. Therefore, a lower interest rate results in a higher present value. The COLA in this analysis was assumed to compound annually.

**Adjusted Interest Rate Assumption:** 4.45 %

The adjusted interest rate assumption equals the interest rate less any cost-of-living adjustment. Since a COLA is an incremental increase in an individual's monthly retirement benefit, when analyzing such for present value the estimated COLA (when granted) is subtracted from the interest rate. Interest rates and present value have an inverse relationship. Therefore, a lower adjusted interest rate results in a higher present value.

**Reduction for Non-Vesting:** 1.0000

A reduction for non-vesting represents the probability of service to 100 percent vesting as equal to the portion already completed. If the reduction is equal to 1.0000 then the member is fully vested and no reduction has been made (any number multiplied by 1 equals that number).

**Reduction for Marital Coverture:** 1.0000

A coverture fraction is a tool used to separate that portion of the benefits that were earned during the marriage, from that portion of the benefits that were earned outside the marriage. A marital coverture is calculated as a fraction. The numerator (top number) of the fraction represents the total period of time the pensionholder participated in the plan during the marriage, and the denominator (bottom number) is the total period of time the pensionholder participated in the plan as of the accrual date. The fraction is then converted to a decimal and incorporated in the present value calculation. If the reduction is equal to 1.0000 then the benefit was earned entirely during the marriage and no reduction has been made (any number multiplied by 1 equals that number). This coverture fraction does not take into consideration any interruption in service.

## Results

Following are the results of the calculation as set forth above.

<b>*Present Value Before Reductions:</b>	\$	47,981.73
<b>Reduction for Non-Vesting:</b>	X	1.0000
<b>Reduction for Marital Coverture:</b>	X	<u>1.0000</u>
<b>**Valuation For Equitable Distribution:</b>	\$	47,981.73

\*Refers to the lump sum value of receiving a benefit at a specific point in the future for a specified period of time. This is the present value of the member's entire pension from the date of participation to benefit accrual date (i.e., what the member's entire pension is worth on the valuation date).

\*\*This is the value to be divided between the parties.

## **Strengths and Weaknesses of the Immediate Offset Method**

The primary strength of the Immediate Offset Method is that it completely resolves the issue of dividing the pension at the time of the divorce. The benefits are divided, and each party walks away from the table with their respective portion at the time of the divorce. Due to the often adversarial nature of divorce, divorcing parties are notoriously apt to pursue litigation and continue fighting over unresolved issues even after the divorce is final. Therefore, the battle could continue long after the parties are divorced, thus creating additional legal bills and litigation costs and occupying the court's time. By using the Immediate Offset Method all issues are resolved, thereby eliminating the possibility of future litigation.

The weakness of this method lies within the notion that the court must base its decision on assumptions rather than absolute fact. In order to use the Immediate Offset Method, the present value of the retirement benefits must be determined. The present value is determined using actuarial assumptions relative to the pensionholder's projected lifespan. These actuarial assumptions measure the probability that the pensionholder will reach retirement age, thus entitling him/her to benefits, and the length of time beyond his/her retirement date that benefits are expected to be received. These projections are based upon probabilities. Therefore, the present value of the benefits will be correct based upon the average case. However, no case is exactly average. In the event that the pensionholder would die prematurely before he/she reaches retirement age, the spouse would have received his/her interest in the retirement benefits at the time of divorce, which due to the death of the pensionholder, were never actually received by the pensionholder. Therefore, one party received an interest in an asset which never flourished for the other party. Due to this pitfall, some courts have decided that the Immediate Offset Method places an uneven amount of risk on the pensionholder as compared to the spouse. The pensionholder ends up having to trade current dollars for future dollars which bear the risk of never being received.

However, this summation of an uneven balance of risk is inaccurate. Inherent in the present value analysis is a discount to reflect the likelihood that the pensionholder will not live long enough to retire and receive benefits. The following is a very basic example intended to illustrate the risk associated with Immediate Offset.

The present value of the pensionholder's retirement benefit is \$50,000, assuming that he/she is currently age 65. However, on the date of the divorce the pensionholder is only 50, therefore, the present value is discounted to \$25,000 to account for the 15 year deferred period until retirement. If the parties are going to divide the retirement benefits on a 50/50 basis using the Immediate Offset Method, the spouse would be awarded \$12,500 at the time of the divorce, in lieu of his/her interest in the pension. If the pensionholder does not live to age 65 and begin receiving benefits, the spouse has been awarded a \$12,500 windfall. However, if the pensionholder does live to age 65, the true value of the benefit was \$50,000 of which the spouse would have had a 50% interest or \$25,000. Therefore, the pensionholder receives a \$12,500 windfall if he/she lives long enough to receive benefits.

Therefore, as you can see, the real weakness of this method lies not in the balance of risk, but that the risk exists at all. As stated earlier, the present value analysis is based upon probabilities. A discount is applied to account for the probability that the pensionholder will not live to retirement. The likelihood of life after retirement is then based upon an average. The calculation of present value is exactly correct in the average case. However, the average scenario never exists. Therefore, the present value is never exactly correct relative to the case at hand. Based upon this, use of the Immediate Offset Method will always shortchange someone. However, who will be shortchanged and by how much is unknown. Therefore, both parties are wagering the benefits.

The Immediate Offset Method always has some mechanical problems. As discussed earlier, the court must decide on an appropriate present value of the retirement benefits. This can be difficult. The court must decide whether or not the assumptions used in the present value analysis are legitimate, and thereby, either accept or reject the final conclusions of value. Since many of the pieces involved in this analysis are assumptions and not fact, such can be the cause of arguments and litigation between the parties.

### **Immediate Offset - Pros for the Pensionholder**

1. Control over all benefits earned when the pension goes into pay status.
2. Freedom to select from alternative benefit packages when pension goes into pay status.
3. Allows pensionholder to enjoy all benefits earned due to future increases in salary and continued years of service.
4. Allows pensionholder to take full advantage of future liberalized pension rules or conditions.
5. May simplify issues addressed in the divorce decree.
6. May be more acceptable to employer, who will not have to enforce a court order.
7. Avoids potentially protracted litigation over future pension issues.
8. Gives pensionholder an increased ability to provide for a subsequent spouse and/or children.

### **Immediate Offset - Pros for the Non-owning Spouse**

1. Avoids the possibility that the pension may never be paid (e.g., if the pensionholder dies before reaching retirement age).
2. Provides nonowning spouse with more liquid assets at the time of divorce.
3. Plan benefits could become less generous in the future.
4. The law may become less liberal towards the interests of nonowning spouses.
5. Avoids possibility that the nonowning spouse could die and never receive any benefits under the pension.
6. Avoids income tax liability to nonowning spouse on future payments.
7. Avoids potentially protracted litigation over future pension issues.
8. Avoids enforcement problems with the employer.

For information regarding an alternative method for dividing pensions for divorce, please visit our website at [www.pensionappraisaldesk.com](http://www.pensionappraisaldesk.com).

### **OTHER ISSUES:**

#### **Effect of Contributions on the Present Value of a Defined Benefit Plan**

A defined benefit plan may be contributory or non-contributory, meaning the employer may or may not require that employees make contributions on their own behalf. If the plan is contributory, an account is established for each member and contribution account balances are maintained. Benefits statements are typically sent to each member on an annual basis and members may track the level of their own contributions. However, a member's contributions should not be mistaken for the value of the pension plan. The member's own contributions represent only a portion of the value of the retirement benefit. While the member is making contributions on his/her own behalf the plan is also making contributions on behalf of all its members. The plan's contributions are generally deposited into a general pension fund. The level of contributions necessary to fully fund all of their members' pensions is determined through a series of calculations performed by the plan actuary.

### **END OF REPORT**