

FIXED TERM INVESTMENT

Understanding how Fixed Term Investment is valued for PCLS



A PRACTICAL GUIDE FOR ADVISERS

What this guide is for

This guide describes how a Fixed Term Investment is valued when a client takes Pension Commencement Lump Sum (PCLS), and how to explain that valuation with confidence.

Its purpose is to help advisers understand what the **Technical Value** represents, why it behaves as it does, and why using a Fixed Term Investment does **not** reduce the tax-free cash available to a client.

The one thing to be clear on

When PCLS is calculated, every asset held within a client's personal pension needs a value.

- For funds, this is the unit price on the day.
- For Fixed Term Investment, this is the **Technical Value**.

The Technical Value is used **only for valuation**. Tax-free cash is **not taken from the Fixed Term Investment itself**. However, the Technical Value of the Fixed Term Investment is **fully included** when calculating the total amount of tax-free cash a client can take.

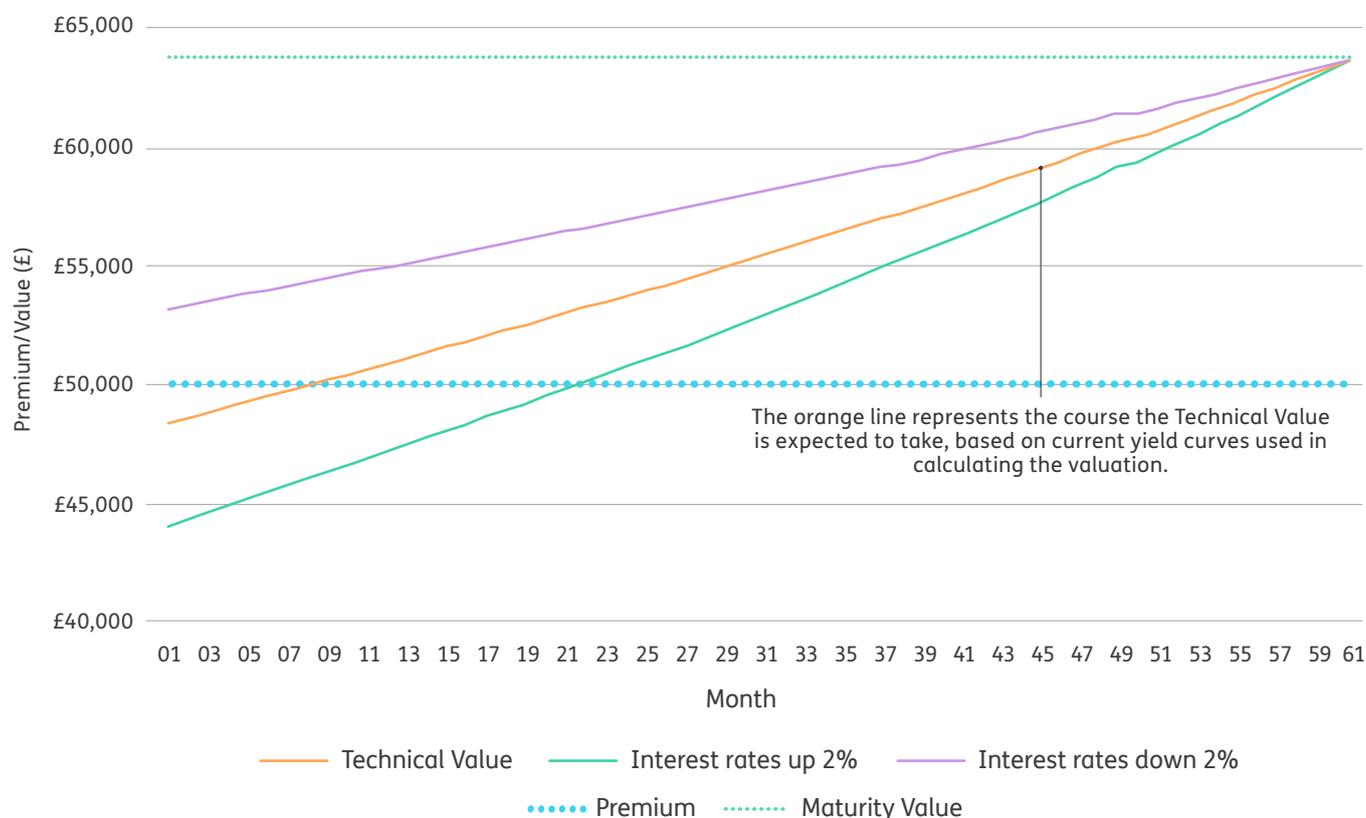
What the Technical Value represents

The Technical Value is, on any given day, the value of the **guaranteed future benefits** provided by the Fixed Term Investment. It exists so that guaranteed investments like Fixed Term Investment can be valued consistently with other pension assets.

How the Technical Value behaves

The graph below shows how the Technical Value develops over time as it moves towards the guaranteed maturity value. This illustration is for a 65 year old customer, £50,000 premium, with a five year maturing only Fixed Term Investment, based on pricing and interest rates as at 26 November 2025. The graph also shows how the Technical Value may change under different interest rate scenarios. In reality, interest rates will change by different amounts at different terms.

Technical Values under various scenarios



There are **three things that matter** when reading this graph:

1. The value changes over time

Unlike a fund price, the Technical Value is not a market price. It's a present-day valuation of a known future payment. As time passes and the maturity date gets closer, the value naturally moves towards the guaranteed maturity amount.

2. The value may be below the original premium

In the early years of a Fixed Term Investment contract, the Technical Value may be lower than the amount originally invested. This doesn't mean money has been lost. It reflects the fact that the guaranteed payment is still in the future and is being expressed in today's terms. As maturity approaches, the value increases towards the guaranteed maturity amount.

3. Interest rates affect the valuation

The Technical Value uses the same interest rate assumptions insurers use to value their business under Solvency II regulations.

- When interest rates rise, present-day values tend to fall. (— in the graph)
- When interest rates fall, present-day values tend to rise. (— in the graph)

This explains why the Technical Value can move up or down before maturity. It's a feature of the valuation method, not an indication of risk or loss.

A familiar pensions comparison

Some advisers find it helpful to compare the Technical Value of a Fixed Term Investment with how **Cash Equivalent Transfer Values (CETVs)** are used in Defined Benefit (DB) pensions. With a DB pension, a CETV expresses the **value today of guaranteed future benefits**. It's a valuation figure used for benefit calculations or transfers not cash the member receives today and it can move as interest rates change. The Technical Value of a Fixed Term Investment works in the same way. **It represents the present-day value of guaranteed future payments**, used for valuation purposes when calculating PCLS, even though the investment itself continues to maturity.

In summary

- ✓ Fixed Term Investment is fully included when calculating PCLS
- ✓ The Technical Value reflects guaranteed future benefits in today's terms
- ✓ Movement in the Technical Value before maturity is expected and interest-rate driven
- ✓ The graph shows how the Technical Value could change
- ✓ If the Fixed Term Investment is held to term, the maturity value is guaranteed.

Further information

Please refer to our **Technical Guide** for further information.

Disclaimer

The scenario on the previous page is hypothetical and based on assumptions, not indicative of future performance. Provided for illustrative purposes only and should not be the sole basis for investment decisions. Investment returns can fluctuate. The Technica Value may fluctuate as interest rates change over time. If held to maturity the value is guaranteed.

For more information

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