

Model to calculate pension increase assumptions with caps and/or floors

Inputs

Fixed gilt yield (annualised)	FI	4.48%
I-L gilt yield (annualised)	IL	1.95%
Forward inflation assumption (% pa)	E	2.48%
Multiple of inflation	k	100.00%
Maximum pension increase	Cap	5.00%
Minimum pension increase	Floor	0.00%

Black-Scholes-derived Pension Increase Assumption

Assumption without cap or floor = a	2.48%
Put = b	0.17%
Call = c	0.18%
Pension increase assumption (a + b - c)	2.47%

Notes

1. If there is no maximum increase then put 99999% as the maximum
2. If there is no minimum increase then put (- k + 0.001)% as the minimum