



# Government Actuary's Department

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[www.gov.uk/gad](http://www.gov.uk/gad)

15 October 2015

Dear Colette

## **Armed Forces Pension arrangements Factors for incoming non-Club transfers for AFPS15 members**

1. Further to my letter of 21 May and Alan's letter of 7 April setting out our proposed general approach to factor reviews, this letter sets out our advice on determining transfer-in pension for AFPS15 incoming non-Club transfers, where the member does not have prior Armed Forces service, together with tables of factors.
2. These factors only relate to AFPS15 cases. I am writing separately regarding non-Club transfers into AFPS05. Any non-Club transfers into AFPS75 should be referred to GAD.
3. As discussed in our e-mail correspondence of 16-18 June 2015, cases of AFPS15 incoming non-Club transfers where the member has prior Armed Forces service should be referred to GAD. These factors should not be used for cases where members have prior Armed Forces service.
4. The letter is not appropriate for any other purpose. No third party (eg scheme members) is entitled to rely on it and GAD has no liability to any third party for any act or omission taken on the basis of this letter.
5. GAD seeks to achieve a high standard in all our work. Please go to our [website](#) for details of the standards we apply.

### **Background**

6. AFPS15 allows members to transfer in benefits from previous pension arrangements (subject to some restrictions) if the member requests this option within 12 months of joining AFPS15. Actuarial factors are required to convert the transfer amount into additional AFPS15 pension.
7. Given the number of non-Club transfer-in requests received since the introduction of AFPS15 in April 2015, MoD has commissioned GAD to produce tables of factors for use in such cases. There are no existing AFPS15 non-Club transfer-in factors.

## Regulations

8. The terms for incoming transfers are covered by The Armed Forces Pension Regulations 2014. Regulations 106, 107, 108 and 109 of Part 8 apply. Regulations 106 and 107 set out the eligibility criteria, the restrictions applying and the procedure for applying for a transfer-in. Regulation 107 includes the restriction that members must request a transfer-in within 12 months of joining AFPS15.
9. Regulation 109 states that the amount of the transferred pension a member is entitled to count in respect of the transfer payment should be:
  - (a) *“the amount specified in the transfer statement; or*
  - (b) *if such a statement is not provided, an amount calculated by the scheme manager in accordance with actuarial guidance and tables by reference to any factors as at the transfer date that the scheme manager, after consultation with the scheme actuary, considers should apply.”*
10. If a transfer statement is provided then regulation 108 specifies that the amount of transferred pension shown in the transfer statement should be *“an amount calculated by the scheme manager in accordance with actuarial guidance and tables by reference to*
  - (a) *factors relating to the member’s circumstances as at the end of that 2 month period; and*
  - (b) *any other factors as at the date of the statement that the scheme manager, having consulted the scheme actuary, considers should apply.”*
11. There are no references in the regulations as to how the factors in the guidance and tables should be derived or how regularly they should be reviewed.

## tPR guidance

12. The Pensions Regulator (tPR) issued guidance on transfers in September 2008. The guidance suggests that the following principles should be taken into account:
  - (a) from a transferring member’s perspective, the transfer credit should be fair value for any transfer received;
  - (b) a transfer credit should not be expected to require additional financing from the employer in the long term unless agreed by the employer in advance.
13. The guidance also states that, within these principles, it will usually be appropriate to use assumptions that are consistent with the transfer out (ie CETV) basis. However tPR also recognises that it may be appropriate to allow for *selection*, particularly in respect of higher than average future pay.
14. The guidance expects disclosure of the assumptions used in the calculation of the transfer-in credits offered.
15. We recommend that the factors are determined on the basis of actuarial equivalence of the transfer-in pension to the transfer value brought into the scheme, on assumptions consistent with those used to set employer contributions to the scheme under the SCAPE methodology. Given that AFPS15 transfer-in pension is revalued in service with average earnings rather than with the member’s actual future pay increases, it is not necessary to consider any allowance for selection in respect of pay increases.

16. This approach is consistent with the principles set out in the tPR guidance, whilst noting that the guidance is not binding and other approaches may be justifiable. Our approach is also consistent with the general principles described in Alan's letter of 7 April 2015 and agreed with John McCullagh in respect of the current AFPS factor review.

### **Methodology and assumptions used to determine the new factors**

17. The key assumptions to consider for the non-Club transfer in factors are the discount rate, average earnings increases, withdrawal rates and mortality assumptions.
18. Appendix A summarises the main assumptions for calculating the AFPS15 non-Club transfer-in factors.

### **Financial Assumptions**

19. We have adopted the same SCAPE discount rate as used to determine employer contributions to AFPS in the 2012 valuation. This can be considered to represent the cost to the scheme of providing the benefits otherwise payable.
20. The long term discount rate used in the 2012 valuation was 3% in excess of assumed CPI.
21. An earnings growth assumption of 2.75% in excess of CPI was used in the 2012 valuation. We have adopted this assumption for average earnings increases for determining the factors. This leads to a discount rate net of earnings of 0.25% pa.

### **Mortality Assumptions**

22. We have considered possible selection effects. For example, a member who expects to live longer than average or to remain in the scheme longer than average may find an incoming transfer particularly attractive.
23. Suitable data is not available in respect of members who have brought in non-Club transfers to allow us to determine whether the withdrawal rates or mortality experience of such members differs from the experience of scheme members as a whole. We have not made any specific allowance in withdrawal rates or mortality assumptions to reflect the effects of selection.
24. The factors reflect the latest available experience for the mortality of AFPS members collected as part of the 31 March 2012 actuarial valuation, together with the latest (2012-based) ONS principal projections for future mortality improvements. We have used a base mortality which reflects a roughly equal proportion of officers and other ranks (see below for further discussion of officer and other rank split.)

### **Other Assumptions**

25. We have assumed a profile of 50% officers and 50% other ranks and used average assumptions based on this profile. Although there are more other ranks than officers in the AFPS15, it is considered that officers are more likely to opt for transfers-in, particularly as they tend to join the scheme at a later age. We therefore suggest that a 50%/50% profile is reasonable but please let us know if you would like to discuss this further.
26. We have not made any allowance for member commutation options.

27. The other assumptions used are consistent with the assumptions used for the 2012 valuation. However we have varied the assumption for rates of EDP retirement so that it depends on the member's age of joining AFPS15 and reflects a roughly equal proportion of officers and other ranks. This was not required for the 2012 valuation as the valuation calculations assumed standard ages of joining for officers and other ranks and based the EDP retirement assumptions on those ages.
28. No adjustment for market conditions (AMC) should apply to these factors.

### **Medical and Dental Officers**

29. We understand that Medical and Dental Officers (MODOs) who join AFPS15 will receive AFPS15 EDP if they stay sufficiently long that they are eligible. Separate factors are therefore not required for MODO AFPS15 non-Club transfers-in as the main factors will apply. However please let us know if we have misunderstood or if you would like to discuss this further.

### **New Factors**

30. Appendix B sets out factors to determine transfer-in pension for incoming non-Club transfers going into AFPS15. Please note that we have not provided factors for those members who are age 60 or older. If any such cases arise then they should be referred to GAD on an individual basis.
31. The transfer-in pension should be calculated by equating the transfer value to the value of the transfer-in pension:

$$\text{Incoming transfer value} = \text{Transfer-in pension} \times \text{Member factor} + \text{Transfer-in pension} \times 0.625 \times \text{Spouse factor}.$$

This rearranges to give the following:

$$\text{Transfer-in pension} = \frac{\text{Incoming transfer value}}{(\text{Member factor} + 0.625 \times \text{Spouse factor})}$$

32. An illustration of how the factors are used is given below:

A male member joins AFPS15 at age 30 and asks to transfer in £100,000. His State Pension Age (SPA) is 68.

From the tables below, the Member pension factor is 14.33 and the Spouse pension factor is 3.32.

His transfer-in pension is therefore  $\text{£}100,000 / (14.33 + 0.625 \times 3.32) = \text{£}6,096$  per annum.

33. As you are aware, transfer-in pension will be revalued each year in accordance with the average earnings index used by the scheme. The above calculation provides the amount of transfer-in pension for the scheme year in which the incoming transfer is received.

### **Next Steps**

34. The factors in this letter are under MoD's control after taking actuarial advice. If you are content with the factors (and underlying assumptions) in this letter then you will need to instruct the administrators to implement them. Alternatively if you have any comments please let us know.

35. We would expect these factors to remain appropriate while the current SCAPE discount rate remains in force and while mortality and withdrawal rates remain broadly in line with the assumptions. However, as set out in our Service Level Agreement, we will keep these factors under review in accordance with our statutory responsibilities under the regulations and advise you if and when we believe a further review is necessary. Please let us know if there are any relevant changes in regulations or circumstances which might affect our consideration of these factors.
36. We will soon provide an updated version of our factors spreadsheet which includes these factors.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Joanne Rigby'.

**Joanne Rigby**  
**Consulting Actuary**

## APPENDIX A

### Summary of assumptions used for AFPS15 non-Club transfer-in factors

Table A1 – Financial assumptions

Assumption	Rate	Notes
Discount rate (in excess of CPI inflation)	3.00%	In line with long term SCAPE rate
Earnings growth net of CPI inflation	2.75%	Consistent with assumptions for 2012 valuation
CPI inflation	2.00%	Consistent with assumptions for 2012 valuation
<b>Adjustment for market conditions</b>		
None		As per HMT guidance

Table A2 – Demographic assumptions

Assumption	Notes
<b>Post-retirement mortality</b>	
Base mortality	“S1” tables issued by the Actuarial Profession. Mortality of 102% of S1NXA to reflect a roughly equal proportion of officers and other ranks
Future mortality improvements	ONS 2012-based principal population projections for the UK, consistent with approach adopted for 2012 actuarial valuation and resource accounting
<b>Other</b>	
Family statistics	92.5% (Male) and 67.5% (Female) at SPA or earlier death are assumed to have a spouse/partner. Husbands are assumed to be 3 years older than wives
Withdrawal	Consistent with 2012 valuation assumptions
Ill-health retirement	Consistent with 2012 valuation assumptions
EDP exit	40% of members who reach EDP point assumed to retire then, followed by 12.5% of members for the next 5 years, then 15% for 5 years and 20% of members for any remaining years before age 60.
Age retirement	All members still in service are assumed to retire at age 60
Promotional salary scale	Not applicable for AFPS15
Commutation	No allowance
Membership profile	50% officers and 50% other ranks

# **APPENDIX B** **Incoming AFPS15 Non-Club Transfers - Males**

Age last birthday at relevant date	SPA65		SPA66		SPA67		SPA68	
	Gross Pension of £1 per annum	Spouse Pension of £1 per annum	Gross Pension of £1 per annum	Spouse Pension of £1 per annum	Gross Pension of £1 per annum	Spouse Pension of £1 per annum	Gross Pension of £1 per annum	Spouse Pension of £1 per annum
18	10.23	2.09	9.95	2.09	9.68	2.09	9.42	2.09
19	10.57	2.14	10.29	2.14	10.02	2.14	9.76	2.14
20	11.11	2.23	10.83	2.23	10.56	2.23	10.29	2.23
21	11.41	2.30	11.13	2.30	10.85	2.30	10.58	2.30
22	11.64	2.37	11.35	2.37	11.07	2.37	10.80	2.37
23	12.05	2.46	11.76	2.46	11.47	2.46	11.20	2.46
24	12.60	2.58	12.30	2.58	12.01	2.58	11.73	2.58
25	13.11	2.70	12.80	2.70	12.51	2.70	12.22	2.70
26	13.56	2.82	13.25	2.82	12.96	2.82	12.67	2.82
27	13.96	2.94	13.65	2.94	13.35	2.94	13.06	2.94
28	14.38	3.06	14.07	3.06	13.77	3.06	13.48	3.06
29	14.81	3.19	14.50	3.19	14.20	3.19	13.92	3.19
30	15.22	3.32	14.91	3.32	14.62	3.32	14.33	3.32
31	15.78	3.47	15.47	3.47	15.18	3.47	14.90	3.47
32	16.37	3.64	16.07	3.64	15.79	3.64	15.52	3.64
33	16.83	3.79	16.55	3.79	16.27	3.79	16.01	3.79
34	17.21	3.93	16.94	3.93	16.68	3.93	16.43	3.93
35	17.51	4.05	17.26	4.05	17.01	4.05	16.78	4.05
36	17.74	4.15	17.51	4.15	17.28	4.15	17.06	4.15
37	17.90	4.24	17.68	4.24	17.48	4.24	17.28	4.24
38	18.01	4.31	17.82	4.31	17.64	4.31	17.47	4.31
39	18.22	4.37	18.13	4.37	18.05	4.37	17.97	4.37
40	18.39	4.40	18.39	4.40	18.39	4.40	18.39	4.40
41	18.40	4.39	18.40	4.39	18.40	4.39	18.40	4.39
42	18.39	4.39	18.39	4.39	18.39	4.39	18.39	4.39
43	18.39	4.38	18.39	4.38	18.39	4.38	18.39	4.38
44	18.39	4.37	18.39	4.37	18.39	4.37	18.39	4.37
45	18.40	4.36	18.40	4.36	18.40	4.36	18.40	4.36
46	18.40	4.34	18.40	4.34	18.40	4.34	18.40	4.34
47	18.41	4.33	18.41	4.33	18.41	4.33	18.41	4.33
48	18.42	4.31	18.42	4.31	18.42	4.31	18.42	4.31
49	18.43	4.29	18.43	4.29	18.43	4.29	18.43	4.29
50	18.44	4.26	18.44	4.26	18.44	4.26	18.44	4.26
51	18.46	4.23	18.46	4.23	18.46	4.23	18.46	4.23
52	18.49	4.20	18.49	4.20	18.49	4.20	18.49	4.20
53	18.52	4.16	18.52	4.16	18.52	4.16	18.52	4.16
54	18.55	4.12	18.55	4.12	18.55	4.12	18.55	4.12
55	18.60	4.07	18.60	4.07	18.60	4.07	18.60	4.07
56	18.65	4.02	18.65	4.02	18.65	4.02	18.65	4.02
57	18.72	3.95	18.72	3.95	18.72	3.95	18.72	3.95
58	18.79	3.88	18.79	3.88	18.79	3.88	18.79	3.88
59	18.88	3.81	18.88	3.81	18.88	3.81	18.88	3.81
>=60	Refer cases to GAD							

The notes on the following page should be read in conjunction with this table.

**Notes:**

1. The table applies to Officers and Other Ranks.
2. These factors should only be used for members of AFPS15.
3. These factors are only applicable for members who have requested an AFPS15 transfer-in within a year of joining the Armed Forces. Cases for members who have previous Armed Forces service should be referred to GAD.



# **Incoming AFPS15 Non-Club Transfers - Females**

Age last birthday at relevant date	SPA65		SPA66		SPA67		SPA68	
	Gross Pension of £1 per annum	Spouse Pension of £1 per annum	Gross Pension of £1 per annum	Spouse Pension of £1 per annum	Gross Pension of £1 per annum	Spouse Pension of £1 per annum	Gross Pension of £1 per annum	Spouse Pension of £1 per annum
18	10.69	0.81	10.41	0.81	10.14	0.81	9.88	0.81
19	11.05	0.83	10.77	0.83	10.49	0.83	10.23	0.83
20	11.62	0.87	11.33	0.87	11.05	0.87	10.79	0.87
21	11.94	0.89	11.65	0.89	11.37	0.89	11.10	0.89
22	12.19	0.91	11.89	0.91	11.61	0.91	11.33	0.91
23	12.62	0.95	12.33	0.95	12.04	0.95	11.76	0.95
24	13.20	0.99	12.90	0.99	12.60	0.99	12.32	0.99
25	13.75	1.03	13.44	1.03	13.14	1.03	12.85	1.03
26	14.24	1.07	13.93	1.07	13.63	1.07	13.33	1.07
27	14.67	1.11	14.36	1.11	14.06	1.11	13.77	1.11
28	15.13	1.15	14.82	1.15	14.51	1.15	14.22	1.15
29	15.60	1.19	15.29	1.19	14.99	1.19	14.70	1.19
30	16.06	1.24	15.75	1.24	15.45	1.24	15.16	1.24
31	16.66	1.29	16.36	1.29	16.06	1.29	15.78	1.29
32	17.31	1.34	17.01	1.34	16.73	1.34	16.45	1.34
33	17.83	1.39	17.54	1.39	17.26	1.39	16.99	1.39
34	18.26	1.43	17.99	1.43	17.72	1.43	17.47	1.43
35	18.60	1.46	18.34	1.46	18.09	1.46	17.85	1.46
36	18.87	1.49	18.63	1.49	18.40	1.49	18.17	1.49
37	19.06	1.52	18.84	1.52	18.63	1.52	18.43	1.52
38	19.20	1.54	19.01	1.54	18.82	1.54	18.65	1.54
39	19.44	1.55	19.35	1.55	19.26	1.55	19.18	1.55
40	19.62	1.56	19.62	1.56	19.62	1.56	19.62	1.56
41	19.63	1.56	19.63	1.56	19.63	1.56	19.63	1.56
42	19.62	1.55	19.62	1.55	19.62	1.55	19.62	1.55
43	19.62	1.54	19.62	1.54	19.62	1.54	19.62	1.54
44	19.62	1.54	19.62	1.54	19.62	1.54	19.62	1.54
45	19.62	1.53	19.62	1.53	19.62	1.53	19.62	1.53
46	19.62	1.52	19.62	1.52	19.62	1.52	19.62	1.52
47	19.62	1.51	19.62	1.51	19.62	1.51	19.62	1.51
48	19.63	1.50	19.63	1.50	19.63	1.50	19.63	1.50
49	19.63	1.49	19.63	1.49	19.63	1.49	19.63	1.49
50	19.64	1.47	19.64	1.47	19.64	1.47	19.64	1.47
51	19.66	1.46	19.66	1.46	19.66	1.46	19.66	1.46
52	19.67	1.44	19.67	1.44	19.67	1.44	19.67	1.44
53	19.70	1.42	19.70	1.42	19.70	1.42	19.70	1.42
54	19.73	1.39	19.73	1.39	19.73	1.39	19.73	1.39
55	19.76	1.37	19.76	1.37	19.76	1.37	19.76	1.37
56	19.80	1.34	19.80	1.34	19.80	1.34	19.80	1.34
57	19.85	1.31	19.85	1.31	19.85	1.31	19.85	1.31
58	19.90	1.28	19.90	1.28	19.90	1.28	19.90	1.28
59	19.96	1.25	19.96	1.25	19.96	1.25	19.96	1.25
>=60	Refer cases to GAD							

The notes on the following page should be read in conjunction with this table.

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2. These factors should only be used for members of AFPS15.
3. These factors are only applicable for members who have requested an AFPS15 transfer-in within a year of joining the Armed Forces. Cases for members who have previous Armed Forces service should be referred to GAD.