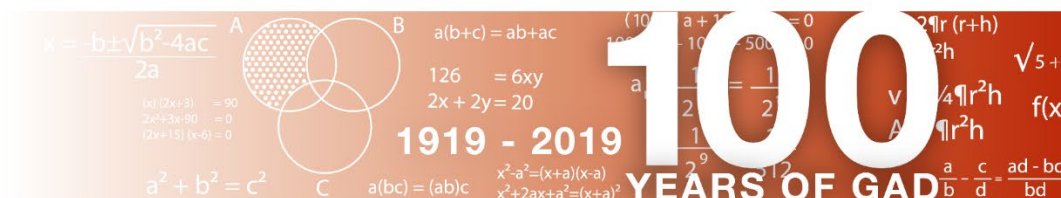




Government
Actuary's
Department



Armed Forces Pension Arrangements

Lifetime allowance scheme pays debits

Factor guidance

Version 1.0

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Author: Joanne Rigby



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1 Introduction

Scope of this guidance

- 1.1 This note is provided for the Ministry of Defence (MoD) as scheme manager of the Armed Forces pension arrangements. It sets out factors and guidance for the purposes of administering the Lifetime Allowance (LTA) scheme pays arrangement within the scheme.
- 1.2 This note relates to the Armed Forces Pension Schemes: AFPS75, AFPS05, AFPS15, FTRS and RFPS (in this note collectively referred to as 'AFPS').
- 1.3 This note relates only to the reduction of benefits where a Lifetime Allowance charge is payable. Separate guidance has been issued relating to the reduction of benefits where an Annual Allowance charge is payable.
- 1.4 This guidance supersedes any guidance previously issued for the purpose of Lifetime Allowance scheme offset calculations.
- 1.5 The factors were prepared in light of our general factors advice to MoD dated 28 February 2018 and 30 October 2018 and its instructions following that advice.
- 1.6 The spreadsheet sent to MoD on 6 December 2018 contains the relevant factors. The tables for use in Lifetime Allowance scheme pays pension debit calculations are tables 1205 and 1206.
- 1.7 These factors are "MoD-Controlled" factors and so it is MoD's decision whether to update these factors after considering GAD's recommendation. MoD has informed GAD that these factors came into force with effect from 1 April 2019.
- 1.8 Appendix A in this guidance sets out the assumptions used in the determination of factors.

Implementation and Review

- 1.9 This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the Armed Forces Pension Schemes. Any questions concerning the application of the guidance should, in the first instance, be referred to MoD.
- 1.10 In line with best practice and in order to make sure that factors are being used as intended and the instructions are fit for purpose, we suggest that some example calculations are sent to GAD for review.
- 1.11 The factors contained in this guidance will be subject to review periodically. This will depend on external circumstances, for example whenever there is a change in the SCAPE basis; when changes in the actuarial assumptions adopted for other scheme factors take place; or following each future actuarial valuation where mortality and other relevant experience is reviewed or if other credible and material information comes to light.



2 Lifetime Allowance – Scheme Pays Mechanism

- 2.1 The process below is appropriate for members at retirement and subject to benefit reduction due to a Lifetime Allowance (LTA) charge. The MoD provides instructions for the administrators regarding how to test benefits against the member's available Lifetime Allowance.
- 2.2 The determination of LTA charges is outside the scope of this note but such charges should be determined after the member has decided the form of benefits to be taken (i.e. after commutation decisions).
- 2.3 This note does not attempt to describe the method for determining the amount of any Lifetime Allowance charge. Any references in this note to the calculation of the Lifetime Allowance charge are included solely to help explain how the charge should be converted to a reduction to the member's benefits. They should not be treated as guidance on how to calculate the Lifetime Allowance charge.

Interactions between Annual Allowance debits and Lifetime Allowance

- 2.4 HMRC have informed the MoD that when calculating Lifetime Allowance charges, the pension tested should be that which would come into payment after allowing for the impact of any Annual Allowance 'scheme pays' offsets. Any Lifetime Allowance pension debit should therefore be applied to the member pension after deduction for any Annual Allowance debit.

Armed Forces Pensions Regulations

- 2.5 Regulation 118 of the Armed Forces Pension Regulations 2014 (as amended) covers Lifetime Allowance benefit offsets for the AFPS15.
- 2.6 For AFPS05 the relevant regulations are J.11 and J.12 of the Armed Forces Pension Scheme Order 2005 (as amended). For AFPS75 the relevant regulation is J.13 of the Armed Forces Pension Scheme 1975 and Attributable Benefits Scheme (Amendment) Order 2010.



3 Using the factors

3.1 The factors in Appendix B are unisex factors.

3.2 Ages are expressed as age last birthday.

Factors

3.3 The appropriate factor, F_p , will depend on the member's age (last birthday) at their date of retirement and whether or not they have retired on the grounds of ill health.

3.4 The factors to be used to determine the member's pension reduction to cover an LTA charge are included in Table 1205 for members of AFPS75, AFPS05, AFPS15, FTRS and RFPS retiring on grounds of normal health and Table 1206 for AFPS75, AFPS05, AFPS15, FTRS and RFPS members retiring on grounds of ill health.

Pension reduction calculation

3.5 The reduction in a member's pension should be determined as follows:

$$\text{LTAPD} = \text{LTATC} \div F_p$$

LTAPD	LTA pension debit
LTATC	LTA tax charge payable by the scheme administrator
F_p	factor for tax charge on member's pension – Table 1205 or 1206 as appropriate

3.6 For the avoidance of doubt, for members who accrue an automatic lump sum, the pension offset calculated in paragraph 3.5 will not affect the size of the automatic lump sum which they receive.

Application of Lifetime Allowance debits

3.7 The Lifetime Allowance debit will not be applied to the benefits payable to a future surviving spouse, civil partner, nominated partner or children on the member's death, including any lump sum on death before retirement.

3.8 The Lifetime Allowance pension debit calculated in paragraph 3.5 is subject to pension increases.



Example 1 Member retiring at age 60 on normal health grounds from AFPS75 with Lifetime Allowance charge

The following information is needed for this calculation:

A. Member date of birth	1 January 1960
B. Retirement date	1 January 2020
C. Member age	60
D. Lifetime Allowance tax charge (LTATC)	£30,000
E. Member's pension before Lifetime Allowance charge	£55,000

Under paragraph 3.5, the LTA pension debit (LTAPD) is calculated as:

$$\text{LTAPD} = \text{LTATC} \div F_p$$

LTATC = £30,000 (from **D.**)

F_p = 19.12 (from **Table 1205**)

Substituting these values into the formula we get:

$$\begin{aligned}\text{LTAPD} &= £30,000 \div 19.12 \\ &= £1,569.04 \text{ pa}\end{aligned}$$

The member's pension (after lifetime allowance pension debit is applied) is:

Member pension = £55,000 - £1,569.04 = £53,430.96 per annum.



Example 2 Member retiring at age 50 on ill health grounds from AFPS15 with Lifetime Allowance charge

The following information is needed for this calculation:

A. Member date of birth	1 January 1970
B. Retirement date	1 January 2020
C. Member age	50
D. Lifetime Allowance tax charge (LTATC)	£25,000
E. Member's pension before Lifetime Allowance charge	£52,500

Under paragraph 3.5, the LTA pension debit (LTAPD) is calculated as:

$$\text{LTAPD} = \text{LTATC} \div F_p$$

$$\text{LTATC} = £25,000 \text{ (from D.)}$$

$$F_p = 23.85 \text{ (from Table 1206)}$$

Substituting these values into the formula we get:

$$\begin{aligned}\text{LTAPD} &= £25,000 \div 23.85 \\ &= £1,048.22 \text{ pa}\end{aligned}$$

The member's pension (after lifetime allowance pension debit is applied) is:

$$\text{Member pension} = £52,500 - £1,048.22 = £51,451.78 \text{ per annum.}$$



4 Exclusions and limitations

- 4.1 This guidance should not be used for any purpose other than those set out in this guidance.
- 4.2 The factors contained in this guidance are subject to regular review. Scheme managers and administrators need to ensure that they are using the latest factors, as relevant, when processing cases.
- 4.3 Advice provided by GAD must be taken in context and is intended to be considered in its entirety. Individual sections, if considered in isolation, may be misleading, and conclusions reached by a review of some sections on their own may be incorrect. GAD does not accept responsibility for advice that is altered or used selectively. Clarification should be sought if there is any doubt about the intention or scope of advice provided by GAD.
- 4.4 This guidance only covers the actuarial principles around the calculation and application of Lifetime Allowance scheme pays offset factors. Any legal advice in this area should be sought from an appropriately qualified person or source.
- 4.5 Scheme managers and administrators should satisfy themselves that Lifetime Allowance scheme pays offset calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting-out requirements.
- 4.6 This guidance is based on the Regulations in force at the time of writing. It is possible that future changes to the Regulations might create inconsistencies between this guidance and the Regulations. If users of this guidance believe there to be any such inconsistencies, they should bring this to the attention of MoD and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.

Third party reliance

- 4.7 This guidance has been prepared for the use of MoD and the scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on MoD and the scheme administrator's website but must not otherwise be reproduced, distributed or communicated in whole or in part to any other person without GAD's prior written permission.
- 4.8 Other than MoD and the scheme administrators, no person or third party is entitled to place any reliance on the contents of this guidance, except to any extent explicitly stated herein. GAD has no liability to any person or third party for any action taken or for any failure to act, either in whole or in part, on the basis of this guidance, whether or not GAD has agreed to the disclosure of its advice to the third party.



Appendix A: Assumptions underlying actuarial factors

Financial assumptions

Nominal discount rate	4.448%
Real discount rate (in excess of CPI)	2.40%

Mortality assumptions

Base mortality tables: normal health	S2PMA and S2PFA
Base table adjustment	110% of Standard Tables
Future mortality improvement	Based on ONS principal UK population projections 2016
Year of use	2020

Other assumptions

Proportion of male members for the purpose of unisexing factors	90%
Age difference between member and partner	Male members assumed to be 3 years older than partner. Female members assumed to be 3 years younger than partner.
Allowance for commutation	Nil



Appendix B: Factor tables

Table 1205 – Lifetime Allowance – Pension Conversion Factors – retirement on grounds of normal health

Unisex factors – AFPS 75/AFPS05/AFPS15/FTRS/RFPS

Age	Gross pension of £1 per annum		Age	Gross pension of £1 per annum
16	27.84		59	19.62
17	27.85		60	19.12
18	27.85		61	18.60
19	27.85		62	18.08
20	27.85		63	17.55
21	27.84		64	17.01
22	27.82		65	16.47
23	27.80		66	15.92
24	27.78		67	15.37
25	27.74		68	14.81
26	27.70		69	14.25
27	27.66		70	13.68
28	27.60		71	13.12
29	27.54		72	12.55
30	27.48		73	11.98
31	27.40		74	11.41
32	27.31		75	10.85
33	27.22		76	10.29
34	27.11		77	9.74
35	27.00		78	9.20
36	26.87		79	8.66
37	26.74		80	8.13
38	26.59		81	7.61
39	26.43		82	7.11
40	26.26		83	6.61
41	26.08		84	6.13
42	25.88		85	5.67
43	25.67		86	5.23
44	25.44		87	4.81
45	25.19		88	4.43
46	24.93		89	4.07
47	24.64		90	3.73
48	24.34		91	3.42
49	24.02		92	3.13
50	23.67		93	2.87
51	23.30		94	2.63
52	22.91		95	2.42
53	22.49		96	2.23
54	22.04		97	2.08
55	21.58		98	1.94
56	21.10		99	1.83
57	20.61		100	1.73
58	20.12			



Table 1206 – Lifetime Allowance – Pension Conversion Factors – retirement on grounds of ill health

Unisex factors – AFPS 75/AFPS05/AFPS15/FTRS/RFPS

Age	Gross pension of £1 per annum		Age	Gross pension of £1 per annum
16	34.35		59	19.62
17	34.15		60	19.12
18	33.93		61	18.60
19	33.72		62	18.08
20	33.49		63	17.55
21	33.27		64	17.01
22	33.03		65	16.47
23	32.79		66	15.92
24	32.55		67	15.37
25	32.30		68	14.81
26	32.04		69	14.25
27	31.78		70	13.68
28	31.51		71	13.12
29	31.23		72	12.55
30	30.95		73	11.98
31	30.66		74	11.41
32	30.36		75	10.85
33	30.06		76	10.29
34	29.75		77	9.74
35	29.43		78	9.20
36	29.11		79	8.66
37	28.78		80	8.13
38	28.45		81	7.61
39	28.11		82	7.11
40	27.76		83	6.61
41	27.40		84	6.13
42	27.04		85	5.67
43	26.67		86	5.23
44	26.29		87	4.81
45	25.91		88	4.43
46	25.51		89	4.07
47	25.11		90	3.73
48	24.70		91	3.42
49	24.28		92	3.13
50	23.85		93	2.87
51	23.41		94	2.63
52	22.97		95	2.42
53	22.51		96	2.23
54	22.05		97	2.08
55	21.58		98	1.94
56	21.10		99	1.83
57	20.61		100	1.73
58	20.12			