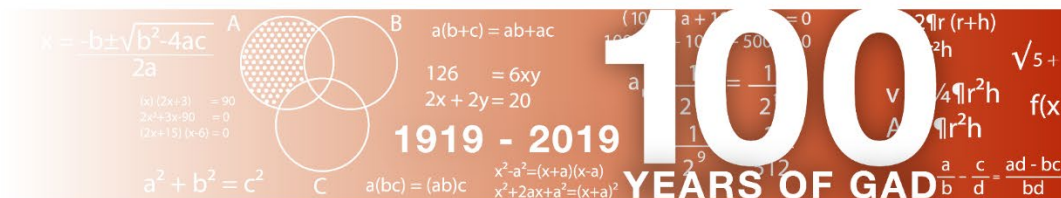




Government
Actuary's
Department



Armed Forces Pension Arrangements

In-service late retirement factors

Factor guidance

Version 1.0

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1 Introduction

- 1.1 This note is provided for the Ministry of Defence (MoD) as scheme manager of the Armed Forces pension arrangements and sets out how to determine the appropriate late retirement factor to be applied to a member's benefits when retiring late from active service in normal health for eligible members of AFPS 15.
- 1.2 This note covers in-service late factors for retirements in normal health only for eligible members of AFPS 15. These factors are not applicable to AFPS05 and AFPS75 and other legacy schemes.
- 1.3 These factors should only be used to adjust AFPS 15 pension in the following circumstances:
 - The pension is paid later than the earliest age at which it is payable without reduction; and
 - The member is in service for the period over which the payment is delayed.
- 1.4 If the member is not in service over the period of delay then the general late retirement factors should be used instead. Please see the GAD guidance entitled *"Armed Forces Pension Arrangements: Early and late retirements in normal health: Factor guidance"*.
- 1.5 These factors should not be used to adjust pension debits or credits, or to adjust Annual Allowance offsets. Please see the separate guidance regarding these factors.
- 1.6 This guidance supersedes any guidance previously issued for the purpose of in-service late retirement factor calculations.
- 1.7 The factors provided in this note were prepared in light of our general factors advice to MoD dated 28 February 2018 and 30 October 2018.
- 1.8 The spreadsheet sent to MoD on 22 November 2018 contains the relevant factors for use in in-service late retirement calculations. The table for use in-service late retirement calculations is table 402. The factors shown in Appendix B of this guidance note are unchanged from the factors provided on 22 November 2018.
- 1.9 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.
- 1.10 Appendix A in this guidance sets out the assumptions used in the determination of factors.



Implementation and Review

- 1.11 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.
- 1.12 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.
- 1.13 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 In-service late retirement adjustment for eligible members of AFPS15

Background

- 2.1 AFPS 15 allows for enhancement of pensions which are paid later than the earliest age at which they are payable without reduction. If the member is in service for the period over which the pension is delayed then an “in-service late payment supplement” is paid. If the member is not in service for the period over which the payment is delayed then a “late payment supplement” applies.
- 2.2 This guidance relates only to “in-service late payment supplement” factors. Please refer to the latest GAD Guidance *“Armed Forces Pension Arrangements: Early and late retirements in normal health: Factor guidance”* regarding the late payment supplement factors for members who were not in service over the period of delay.
- 2.3 These factors are not applicable to AFPS05 and AFPS75 and other legacy schemes.

Armed Forces pensions regulations

- 2.4 Rule 39 of SI 2014 No.2336 of the Armed Forces Pension Regulations 2014 which came into force on 1 April 2015, is relevant to the determination of In-Service Late Retirement factors. The “in-service late payment supplement” is defined in rule 39 as *“an additional amount of pension determined by reference to the period in service after an active member has reached normal pension age”*.
- 2.5 Regulation 39 also states that *“The scheme manager, having regard to the guidance from the scheme actuary, must determine the in-service late payment supplement for each amount of accrued pension specified in the pensioner member’s account.”*



3 Using the factors

- 3.1 The factors in Appendix B are unisex factors.
- 3.2 The ages in use in the factor tables are based on the member's age at retirement in years and complete months. Part months are ignored.
- 3.3 Pensions payable to a member's spouse, civil partner, other adult dependant and/or eligible children should not be increased.
- 3.4 These factors should **not** be used for adjusting pension debits or credits or for Scheme Pays adjustments.

Increase to pre-NPA accrued pension

- 3.5 On leaving service, the member's pension that was accrued pre-Normal Pension Age should have the relevant in-service revaluation applied from the date of reaching Normal Pension Age. The revalued pre-Normal Pension Age pension is then multiplied by the relevant factor.
- 3.6 An AFPS15 member reached NPA 60 on 1 October 2015 and retires at age 65 on 1 October 2020. He has accrued a pension of £10,500 prior to his NPA. His pre-NPA pension that is paid to him at age 65 is then:

$$\text{Pre-NPA Pension} = £10,500 \times 1.20 \times 1.184 = £14,918.40 \text{ pa}$$

where 1.20 is an illustrative in service revaluation increase over the period from NPA 60 up to age 65.

Increase to post-NPA accrued pension

- 3.7 For benefits accrued after NPA, the in-service late retirement factor is obtained by calculating a weighted average of the late payment adjustments between the member's age at the mid-point of each scheme year post NPA 60 to the age of leaving service, weighted using the earnings revalued pension accrued during service over each scheme year.
- 3.8 Where only a part of a scheme year contains service post NPA 60, the age/factor at the mid-point of the partial scheme year is used as opposed to the age/factor at the mid-point of the full scheme year. The late payment adjustment for each scheme year is found by dividing the factor for the age of leaving service by the factor for the age at the mid-point of the scheme year.
- 3.9 An illustration of how the factors are used as described in paragraphs 3.7 and 3.8 is given below:

Using the same example as in paragraph 3.6, an AFPS15 member reached NPA 60 on 1 October 2015 and retires at age 65 on 1 October 2020. This means there are



four full scheme years and two partial scheme years used to calculate the late payment adjustment:

Scheme year	Age at mid-point of block	Relevant late payment adjustment using sample factors from table in Appendix	Revalued pension from period (as at date of leaving service)
1 October 2015 – 31 March 2016	60 years, 3 months (i.e. at 1 January 2016)	$\frac{1.184}{1.008}$	£1,065.48
1 April 2016 – 31 March 2017	61 years (i.e. at 1 October 2016)	$\frac{1.184}{1.031}$	£2,141.52
1 April 2017 – 31 March 2018	62 years (i.e. at 1 October 2017)	$\frac{1.184}{1.065}$	£2,415.48
1 April 2018 – 31 March 2019	63 years (i.e. at 1 October 2018)	$\frac{1.184}{1.102}$	£2,744.58
1 April 2019 – 31 March 2020	64 years (i.e. at 1 October 2019)	$\frac{1.184}{1.141}$	£2,879.28
1 April 2020 – 1 October 2020	64 years, 9 months (i.e. at 1 July 2020)	$\frac{1.184}{1.173}$	£1,474.14

Adding up the final column of the table shows that the unadjusted pension accrued post NPA 60 is £12,720.48.

As discussed in paragraph 3.8, the late payment adjustment is a weighted average of the late payment adjustments between the member's age at the mid-point of each scheme year post NPA 60 to the age of leaving service, weighted using the earnings revalued pension accrued during service over each scheme year:

$$\frac{\left(\begin{array}{l} \text{revalued pension from period 1} \times \text{late payment adjustment from midpoint to retirement} \\ + \text{revalued pension from period 2} \times \text{late payment adjustment from midpoint to retirement} \\ + \dots + \text{revalued pension from period 6} \times \text{late payment adjustment from midpoint to retirement} \end{array} \right)}{\text{Total revalued pension from post NPA 60 service}}$$



$$= \frac{£1,065.48 \times \frac{1.184}{1.008} + £2,141.52 \times \frac{1.184}{1.031} + \dots + £1,474.14 \times \frac{1.184}{1.173}}{£12,720.48}$$

$$= 1.086$$

As such the pension payable from age 65, attributable to service post NPA 60, would be **£12,720.48 x 1.086 = £13,814.44 pa.**

- 3.10 In practice the final two steps above, i.e. dividing and then multiplying by the unadjusted pension accrued post NPA 60, are not required – the pension payable is simply the numerator of the fraction.
- 3.11 The total pension payable at age 65 would be the total of any pension accrued prior to NPA and the total of any post-NPA pension, with appropriate late retirement pension increase applied. In the case of this member:

Total Pension = Pre-NPA Pension + Post-NPA Pension

$$= £14,918.40 \text{ pa} + £13,814.44 \text{ pa}$$

$$= £28,732.84 \text{ pa}$$



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 late retirement 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 late retirement 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% pa
CPI	2.00% pa
Real discount rate (in excess of CPI)	2.40% pa
Real discount rate (in excess of salary increases)	0.24% pa

Mortality assumptions

Base mortality tables: normal health	S2PMA and S2PFA
Base mortality tables: ill 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%
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Appendix B: Factor tables

Table 402: In-Service Late Retirement factors for AFPS 15

Age at Late Retirement - Adjustment to Pension - Unisex										
	60	61	62	63	64	65	66	67	68	69
months										
0	1.000	1.031	1.065	1.102	1.141	1.184	1.230	1.281	1.335	1.395
1	1.003	1.034	1.068	1.105	1.145	1.188	1.234	1.285	1.340	1.401
2	1.005	1.037	1.071	1.108	1.148	1.192	1.239	1.290	1.345	1.406
3	1.008	1.040	1.074	1.112	1.152	1.195	1.243	1.294	1.350	1.412
4	1.010	1.043	1.077	1.115	1.155	1.199	1.247	1.299	1.355	1.417
5	1.013	1.046	1.080	1.118	1.159	1.203	1.251	1.303	1.360	1.423
6	1.016	1.048	1.084	1.121	1.163	1.207	1.255	1.308	1.365	1.428
7	1.018	1.051	1.087	1.125	1.166	1.211	1.260	1.313	1.370	1.434
8	1.021	1.054	1.090	1.128	1.170	1.215	1.264	1.317	1.375	1.439
9	1.024	1.057	1.093	1.131	1.173	1.219	1.268	1.322	1.380	1.444
10	1.026	1.060	1.096	1.135	1.177	1.222	1.272	1.326	1.385	1.450
11	1.029	1.062	1.099	1.138	1.180	1.226	1.276	1.331	1.390	1.455

Age at Late Retirement - Adjustment to Pension - Unisex						
	70	71	72	73	74	75
months						
0	1.461	1.533	1.612	1.699	1.795	1.902
1	1.467	1.539	1.619	1.707	1.804	
2	1.473	1.546	1.626	1.715	1.813	
3	1.479	1.553	1.634	1.723	1.822	
4	1.485	1.559	1.641	1.731	1.831	
5	1.491	1.566	1.648	1.739	1.840	
6	1.497	1.572	1.655	1.747	1.849	
7	1.503	1.579	1.663	1.755	1.857	
8	1.509	1.585	1.670	1.763	1.866	
9	1.515	1.592	1.677	1.771	1.875	
10	1.521	1.599	1.684	1.779	1.884	
11	1.527	1.605	1.692	1.787	1.893	

The notes should be read in conjunction with this table.

Notes

1. On leaving service, the member's pension that was accrued pre-Normal Pension Age should have the relevant in-service revaluation applied from the date of reaching Normal Pension Age and then be multiplied by the relevant factor.
2. The process for adjusting the pension accrued post-Normal Pension Age is more complicated – please see main text of this guidance note.
3. Ages are given in years and complete months. Part months are ignored.
4. Pensions payable to a member's spouse, partner or dependant should not be increased.
5. These factors should not be used for any other early/late retirement purposes, adjusting pension debits or credits or for Scheme Pays adjustments.