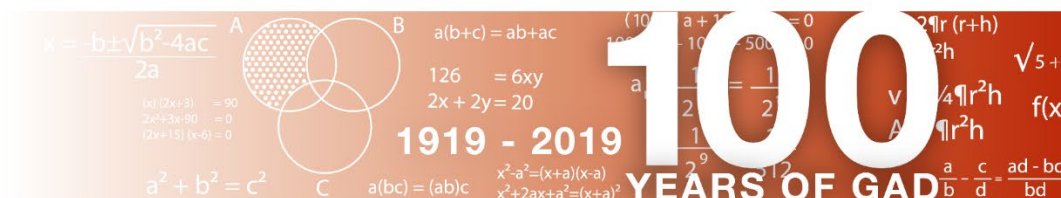




Government
Actuary's
Department



Armed Forces Pension Arrangements

Resettlement Commutation

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 factors and guidance on resettlement commutation calculations for eligible members of AFPS75 in accordance with scheme regulations.
- 1.2 This guidance supersedes any guidance previously issued for the purpose of resettlement commutation calculations.
- 1.3 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.
- 1.4 The spreadsheet sent to MoD on 12 December 2018 contains the relevant factors for use in resettlement commutation calculations. The table for use in resettlement commutation calculations is table 801.
- 1.5 These factors are “GAD-Controlled” factors and so these factors came into force with effect from 12 December 2018.
- 1.6 Appendix A in this guidance sets out the assumptions used in the determination of factors.

Implementation and Review

- 1.7 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.
- 1.8 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.
- 1.9 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 Resettlement Commutation

Background

- 2.1 Resettlement commutation refers to the option for AFPS75 members entitled to retire from active service with an immediate pension (IP) to commute part of their pension benefit for a lump sum cash payment. The pension benefit after age 55 is unaffected and the resettlement commutation payment is provided instead of an amount of pension otherwise payable from the IP point to age 55.

Armed Forces pensions regulations

- 2.2 Resettlement commutation benefits were removed from AFPS 75 and placed with other 'non pension' benefits in Part 4 of SI 2010 No. 832 – the Armed Forces (Redundancy, Resettlement and Gratuity Earnings Schemes) (No 2) Order 2010, which came into force on 6 April 2010.
- 2.3 These regulations set out the eligibility criteria and restrictions on the commutation of pensions for Officers and Other Ranks.
- 2.4 Article 30(6) of the regulations states that: *“The amount of pension to be temporarily waived to secure a capital sum will be determined by the Scheme actuary”*.



3 Using the factors

3.1 The factors in Appendix B are unisex factors.

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

A member of AFPS 75 left active service with an entitlement to an immediate pension. At the point of retirement, he was age 40.

The member is entitled to a pension for life of £10,000. He opted to commute part of his pension for a lump sum. The resettlement commutation lump sum chosen was £15,000.

Age 40 factor (column 3 of table 801): 93.92

Resettlement commutation lump sum: £15,000

Pension reduction = $\frac{£15,000}{£1,000} \times £93.92 = £1,408.80$ per annum

Pension in payment after commutation = £10,000 - £1,408.80 = £8,591.20 per annum

The £8,591.20 pension remains level until age 55. At age 55, the member's pension is restored to £10,000 per annum and the member's pension becomes subject to pension increases in line with the Pension Increases Act 1974.

3.3 No adjustment for the recovery period is made except for where the member is age 54 last birthday. For members age 54 at their last birthday, an adjustment for the recovery period is made as illustrated below:

A member aged 54.2 years old has opted for a resettlement lump sum of £2,000.

Age 54 factor (column 3 of table 801): 1,011.59

Resettlement commutation lump sum: £2,000

Recovery period: 55 - 54.2 = 0.8 years

Pension reduction = $\frac{£2,000}{£1,000} \times £1,011.59 \times \frac{1}{0.8} = £2,528.98$ per annum

3.4 Resettlement commutation does not affect the pension paid to a surviving spouse or civil partner. However, under E23 of the AFPS75 rules, the lump paid on death of a pensioner can be affected by resettlement commutation.



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 resettlement commutation 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 resettlement commutation 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 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 Table

Table 801: Resettlement Commutation Rates

Col 1	Col 2	Col 3
Age last birthday at discharge	Capital sum raised for each £1000 of retired pay/pension given up from exercise of the option by age 55	Annual reduction in retired pay/pension for each £1000 capital sum
30	610.25	66.91
31	621.22	68.52
32	632.48	70.30
33	644.05	72.25
34	655.93	74.40
35	668.16	76.79
36	680.74	79.45
37	693.69	82.43
38	707.03	85.78
39	720.79	89.58
40	734.96	93.92
41	749.57	98.93
42	764.65	104.76
43	780.19	111.63
44	796.23	119.84
45	812.77	129.81
46	829.85	142.19
47	847.47	157.94
48	865.67	178.65
49	884.46	207.10
50	903.89	248.65
51	923.99	315.20
52	944.80	440.08
53	966.37	773.26
54	988.68	1011.59
55	1000.00	1000.00