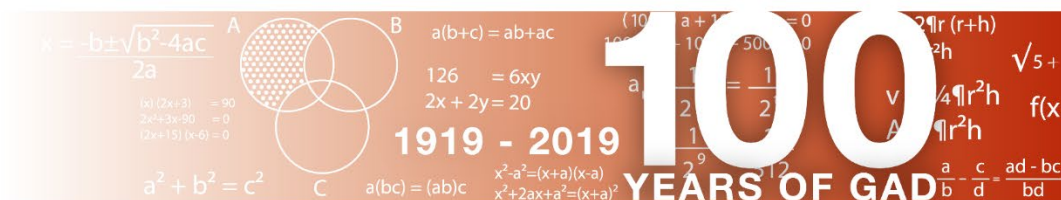




Government
Actuary's
Department



Armed Forces Pension Arrangements

Early Departure Payment (EDP) 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 factors and guidance for the following Early Departure Payment (EDP) calculations for eligible members of AFPS15 in accordance with scheme regulations:
- Conversion of EDP lump sum into additional EDP income
 - Repayment of EDP lump sum upon rejoining within 5 years.
- 1.2 This guidance supersedes any guidance previously issued for the purposes of EDP lump sum conversion or repayment of EDP lump sum upon rejoining calculations.
- 1.3 The factors provided in this note were prepared in light of our advice to MoD dated 28 February 2018 and 30 October 2018.
- 1.4 The spreadsheet sent to MoD on 12 December 2018 contains the relevant factors for use in EDP lump sum conversion and repayment of EDP lump sum on rejoining calculations. The table for use in EDP lump sum conversion cases is table 1401. The table for use in repayment of EDP lump sum on rejoining cases is table 1501. The factors provided in Appendix B of this note are unchanged from the factors provided on 12 December 2018.
- 1.5 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.
- 1.6 Appendix A in this guidance note 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 arrangements. 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 EDP Lump Sum conversion factors

Background

- 2.1 The conversion of the EDP lump sum into additional EDP income is a feature available to members of the AFPS15 only. This option is not available to members of AFPS 05.
- 2.2 The EDP consists of a tax free lump sum and taxable income and is payable to eligible members of the AFPS 15 scheme who are at least age 40, are not entitled to an immediate pension and have completed at least 20 years of qualifying service in the Armed Forces. The EDP income is payable until the member reaches deferred pension age.

Armed Forces pensions regulations

- 2.3 The Armed Forces Early Departure Payments Scheme Regulations 2014 sets out the eligibility and calculation method for EDP cases.
- 2.4 Rule 11 of the Armed Forces Early Departure Payments Scheme Regulations 2014, which came into force on 1 April 2015, sets out the eligibility criteria and operation of EDP lump sum conversion.
- 2.5 In particular, rule 11(2) of the AFPS15 EDP Regulations specifies:

“...Where a person so opts, the periodical payments are to be increased from the date the payments are due to start by the amount that the scheme manager, having consulted the scheme actuary, considers to be equivalent in value to the whole of the lump sum to which the person is entitled”.

Factor tables

- 2.6 The factors in Appendix B are unisex factors.
- 2.7 To calculate the amount of additional EDP income, divide the amount of lump sum being given up by 100 and then multiply the result by the relevant factor.
- 2.8 Where the member has a non-integer deferred pension age (SPA), the factors should be determined using the appropriate factors in Appendix B using straight line interpolation based on days. For example, to determine the factors applicable to a member with a normal pension age of 67 years and 249 days, the formula below should be used:

$$F_P(\text{SPA } 67 \text{ years, } 249 \text{ days}) = F_P(\text{SPA}67) + 249/365 \times [F_P(\text{SPA}68) - F_P(\text{SPA}67)]$$

Where:

$F_P(\text{SPA } x)$ is the factor applying for a State Pension Age of x .



- 2.9 The State Pension Age is subject to review by the government and may change in the future. When calculating the relevant factor, the administrators should use the State Pension Age that is applicable at the calculation date according to the law. There are some proposed changes to State Pension Age which have been announced but not formalised in legislation; these changes should not be used until they are formalised in legislation.

Examples

- 2.10 An example of how the factors are used are given below:

A member joins the AFPS 15 scheme at age 20 and then leaves active service in AFPS 15 at age 40. As the member has 20 years qualifying service and left service at age 40, they are entitled to an early departure payment. The member has a deferred pension age of 67.

At date of leaving, the EDP benefits are as follows:

EDP income payable = £5,318 per annum

EDP lump sum = £35,194

Factor age 40, SPA 67 (Table 1401) = 5.58

The member then opts to convert their EDP lump sum into additional EDP income:

Additional EDP income = $\frac{£35,194}{£100} \times 5.58 = £1,963.83$ per annum

Total EDP income payable = £5,318 + £1,963.83 = £7,281.83 per annum

- 2.11 An example of factor interpolation for a member with SPA 67 years and 249 days:

Member age last birthday = 55

Factor age 55, SPA 67 (Table 1401) = 9.80

Factor age 55, SPA 68 (Table 1401) = 9.17

Factor age 55, SPA 67 years and 249 days = $9.80 + 249/365 \times (9.17 - 9.80) = 9.37$



3 Repayment of EDP lump sum upon rejoining the Armed Forces

Background

- 3.1 Members who rejoin service within 5 years of having left service with EDP benefits can choose to either:
- a) retain their EDP benefits from the previous service and forgo accruing EDP for the new period of service; or
 - b) cease receiving EDP income and repay the EDP lump sum (with interest) from the previous service in order to aggregate the previous and new periods of service towards accruing EDP benefits.
- 3.2 The factors in this guidance are to be used in the calculation of the interest to be applied to the EDP lump sum due to be repaid if 3.1 (b) applies.

Armed Forces pensions regulations

- 3.3 The Armed Forces Early Departure Payments Scheme Regulations 2014 sets out the eligibility and calculation method for EDP cases.
- 3.4 Rule 13 of the Armed Forces Early Departure Payments Scheme Regulations 2014, which came into force on 1 April 2015, sets out the eligibility criteria and operation of the repayment of the EDP lump sum upon rejoining.
- 3.5 In particular, rule 13(3) of the AFPS15 EDP Regulations specifies:
- “...the person may elect to -...*
- b) end the payment of periodical payments.....relating to the prior period of service; and*
 - i) repay in full the amount of any lump sum paid.....relating to the prior period of service; and*
 - ii) such payment is to include interest calculated on a daily basis from the date of cessation of the prior period of service to the date when the repayment is made, at an annual rate determined by the Secretary of State having regard to the advice of the scheme actuary”*
- 3.6 The regulations indicate that the factors should be derived based on interest accruing on a daily basis at a rate determined by the Secretary of State having regard to the advice of the scheme actuary. This rate has been set as CPI + 2.4% annually.



Factor tables

- 3.7 The factors in Appendix B are unisex factors.
- 3.8 Since it is unfeasible to produce a table of factors to cover interest accruing on a daily basis, the factors have been determined in terms of complete years and months for the gap in service. The number of months should be determined by rounding to the nearest month – this is a simplification which approximates a daily basis in a way that is administratively practicable.
- 3.9 The factors in Appendix B represent compound interest at an annualised rate of 2.4%.
- 3.10 To find the amount that needs repaying, multiply the original EDP lump sum value by the relevant factor from the table in Appendix B. Then multiply by the value of CPI at the time of the repayment and divide by the value of CPI at the time the EDP lump sum was originally paid.
- 3.11 The relevant factor is found by rounding to the nearest number of months.
- 3.12 These factors should not be used for any other purpose.

Formula method

- 3.13 Rather than use table 1501 in Appendix B, the factors can be produced manually using the formula $1.024^{(Y + M/12 + D/365)}$ where:

Y is the complete number of years

M is the complete number of months (in addition to those included in Y)

D is the complete number of days (in addition to those included in Y and M) between leaving service and rejoining.

“^” represents “to the power of”.

for example, where a member has a gap in service of 2 years (Y), 3 months (M) and 24 (D) days, the interest rate figures described above would be calculated as follows:

$$1.024^{(2 + 3/12 + 24/365)} = 1.056$$

Note that the CPI adjustment mentioned in 3.10 above would still need to be performed after the original EDP lump sum value has been multiplied by the factor produced using the formula approach.

Example

- 3.14 An example of how the factors are used is given below:

A member joins the AFPS 15 scheme at age 21 and then leaves active service in AFPS 15 at age 42. As the member has over 20 years qualifying service and left service after age 40, they are entitled to an early departure payment.

On leaving, the member was entitled to an EDP lump sum of £39,841.65 (in addition



to his EDP income).

The member's deferred pension age is 67 and he has no accrued benefits in any other AFPS scheme.

The member then returns to active service in AFPS 15 at age 43 years and 6 months exactly. The member opts to repay the EDP lump sum received immediately upon rejoining.

| | |
|--|-----------------|
| Period of time between leaving and rejoining AFPS: | 1 year 6 months |
| EDP factor (Table 1501): | 1.036 |
| EDP Lump sum taken at age 42: | £39,841.65 |
| CPI at time of repayment (illustrative): | 1.096 |
| CPI at time of leaving (illustrative): | 1.063 |

$$\text{EDP repayment LS} = £39,841.65 \times 1.036 \times \frac{1.096}{1.063} = £42,557.33$$



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 Early Departure Payment 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 Early Departure Payment 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% |
|---|-----|



Appendix B: Factor Tables

AFPS 15 EDP lump sum conversion factors

Table 0-1401
Unisex

| Factors | | | | |
|---------------------------------|-------------|-------------|-------------|-------------|
| Age Last Birthday at Retirement | SPA 65 £ | SPA 66 £ | SPA 67 £ | SPA 68 £ |
| 40 | 5.91 | 5.74 | 5.58 | 5.43 |
| 41 | 6.05 | 5.86 | 5.69 | 5.53 |
| 42 | 6.19 | 5.99 | 5.81 | 5.65 |
| 43 | 6.36 | 6.14 | 5.95 | 5.77 |
| 44 | 6.54 | 6.31 | 6.10 | 5.90 |
| 45 | 6.74 | 6.49 | 6.26 | 6.05 |
| 46 | 6.97 | 6.69 | 6.45 | 6.22 |
| 47 | 7.23 | 6.92 | 6.65 | 6.41 |
| 48 | 7.52 | 7.18 | 6.88 | 6.61 |
| 49 | 7.85 | 7.47 | 7.14 | 6.85 |
| 50 | 8.23 | 7.81 | 7.44 | 7.11 |
| 51 | 8.67 | 8.19 | 7.77 | 7.41 |
| 52 | 9.18 | 8.64 | 8.16 | 7.75 |
| 53 | 9.80 | 9.16 | 8.62 | 8.15 |
| 54 | 10.53 | 9.79 | 9.16 | 8.62 |
| 55 | 11.44 | 10.54 | 9.80 | 9.17 |
| 56 | 12.56 | 11.46 | 10.56 | 9.82 |
| 57 | 13.96 | 12.58 | 11.48 | 10.58 |
| 58 | 15.75 | 13.98 | 12.60 | 11.50 |
| 59 | 18.14 | 15.77 | 14.00 | 12.62 |



Repayment of AFPS 15 EDP lump sum upon rejoining factors

Table 0-1501

Unisex

| Period of time between leaving service with EDP benefits and rejoining/repaying EDP lump sum (years) | | | | | | |
|--|-------|-------|-------|-------|-------|-------|
| | 0 | 1 | 2 | 3 | 4 | 5 |
| months | | | | | | |
| 0 | 1.000 | 1.024 | 1.049 | 1.074 | 1.100 | 1.126 |
| 1 | 1.002 | 1.026 | 1.051 | 1.076 | 1.102 | |
| 2 | 1.004 | 1.028 | 1.053 | 1.078 | 1.104 | |
| 3 | 1.006 | 1.030 | 1.055 | 1.080 | 1.106 | |
| 4 | 1.008 | 1.032 | 1.057 | 1.082 | 1.108 | |
| 5 | 1.010 | 1.034 | 1.059 | 1.084 | 1.110 | |
| 6 | 1.012 | 1.036 | 1.061 | 1.087 | 1.113 | |
| 7 | 1.014 | 1.038 | 1.063 | 1.089 | 1.115 | |
| 8 | 1.016 | 1.040 | 1.065 | 1.091 | 1.117 | |
| 9 | 1.018 | 1.042 | 1.067 | 1.093 | 1.119 | |
| 10 | 1.020 | 1.044 | 1.070 | 1.095 | 1.121 | |
| 11 | 1.022 | 1.047 | 1.072 | 1.097 | 1.124 | |