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By email only to: People-AFRem-AFPSPol2@mod.uk

6 August 2015

Dear Colette

Actuarial factors for AFPS 15 In-Service Late Retirement factors

- 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 In-Service Late Retirement factors for eligible members of AFPS 15, together with a table of factors.
- 2. In-Service Late Retirement factors (also known as "in-service late payment supplement" factors) are "MoD-controlled" factors, so it is MoD's decision whether to update these factors after considering GAD's recommendation (please see the "Armed Forces pensions regulations" section of this letter). It is up to MoD to determine when the updated factors should be distributed to and implemented by the administrators.
- 3. These factors should only be used to adjust AFPS 15 pension in the following circumstances:
 - (a) The pension is paid later than the earliest age at which it is payable without reduction; <u>and</u>
 - (b) The member is in service for the period over which the payment is delayed.

If the member is <u>not</u> in service over the period of delay then the late retirement factors in my letter of 27 July 2015 entitled "Early and Late Retirement" should be used instead.

- 4. These factors should not be used to adjust pension debits or credits, or to adjust Annual Allowance offsets. Please see the separate correspondence regarding these adjustments.
- 5. This 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.
- 6. GAD seeks to achieve a high standard in all our work. Please go to our website for details of the standards we apply.

Background

7. 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.

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If the member is not in service for the period over which the payment is delayed then a "late payment supplement" applies.

- 8. This letter relates only to "in-service late payment supplement" factors. Please refer to my letter of 27 July 2015 regarding the late payment supplement factors for members who were <u>not</u> in service over the period of delay.
- 9. These factors are not applicable to AFPS05 and AFPS75 and other legacy schemes.

Armed Forces pensions regulations

- 10. 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".
- 11. 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."
- 12. There are no references in the regulations as to how these early and late retirement factors should be derived or how regularly they should be reviewed.
- 13. The updated factors are determined in terms of actuarial equivalence to the benefits paid on normal retirement, on assumptions consistent with those used to set employer contributions to the scheme under the SCAPE methodology. This is in line with the principles set out in Alan's letter of 7 April 2015 and agreed with John McCullagh.

Key actuarial assumptions used to determine the new factors

- 14. The major assumptions to consider for late retirement factors are the discount rate, the rate of salary increases and the mortality assumptions.
- 15. Appendix A summarises the main assumptions used for calculating the late retirement factors.

Discount rate

- 16. We have adopted the same long-term 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.
- 17. The long-term SCAPE discount rate used in the 2012 valuation was 3% pa in excess of assumed CPI, which is unchanged since the last factor review.
- 18. The general pay growth assumption used in calculating these factors is 2.75% in excess of assumed CPI. This is consistent with the assumption in the 2012 valuation. We have not made any allowance for promotional salary increases, as the promotional salary scale from the 2012 valuation is flat at older ages.

Mortality Assumptions

- 19. Suitable data is not available in respect of members who have taken the late retirement option to allow us to determine whether the mortality experience of such members differs from the mortality experience of scheme members in general.
- 20. However, assumed mortality rates will only have a small impact, as both the normal retirement pension given up and the late retirement pension awarded are paid until death and depend on assumed mortality in a similar manner. As a result, we do not consider that more detailed consideration of the mortality assumption would be appropriate.
- 21. We have used the assumptions adopted for the 2012 actuarial valuation for postretirement mortality which were based on the "S1" standard tables adjusted to reflect the latest available experience for the mortality of AFPS pensioners. Officer mortality of 88% of S1NXA has been used on the assumption that officers are more likely to take the 'In-Service Late Retirement' option. However, using Other Ranks mortality would not materially change the factors.
- 22. Future improvements in post-retirement mortality are based on those underlying the ONS 2012-based principal population projections for the UK.

Other considerations

- 23. We have prepared a single set of factors for all ranks of members and for men and women. The factors have been calculated individually for males and females and then combined into unisex factors using a proportioning of 90% males to 10% females, consistent with the profile of the armed forces as at 31 March 2012.
- 24. To apply the factors to a pension earned pre-NPA 60, the pension should have the relevant in-service revaluation applied from the date of reaching NPA 60 and then be multiplied by the relevant age-related factor from the tables. The process for adjusting the pension accrued post-NPA 60 is more complicated please see the GAD note of 8 November 2013 entitled "Pension Accrued Post NPA 60 Methodology for Late Payment Adjustment".

Factors

- 25. Appendix B sets out the In-Service Late Retirement factors. These are based on the assumptions set out in Appendix A.
- 26. We would expect these factors to remain appropriate while the current SCAPE discount rate remains in force and while mortality 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.

Next steps

27. We have assumed that these factors are under MoD's control after taking actuarial advice but if unsure we suggest you seek legal advice. If you are content with the revised factors (and underlying assumptions) in this letter then you will need to decide on the effective date for implementing them (you may wish to consult DBS and/or AFPS's legal advisers first). Alternatively if you have any comments please let us know.

28. We will also shortly provide an updated version of our factors spreadsheet which includes the new In-Service Late Retirement factors.

Yours sincerely

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Joanne Rigby Consulting Actuary

APPENDIX A

Summary of assumptions for AFPS 15 In-Service Late Retirement factors

Assumption	Rate	Notes
Discount rate (in excess of CPI inflation)	3.00%	In line with long term SCAPE rate
General pay growth (in excess of CPI inflation)	2.75%	Consistent with 2012 valuation

Table A1 – Financial assumptions

Assumption	Notes
Post-retirement mortality	
Base mortality	"S1" tables issued by the Actuarial Profession. Mortality of 88% of S1NXA based on the 2012 valuation mortality for officers
Future mortality improvements	ONS 2012-based principal population projections for the UK, consistent with approach adopted for actuarial valuations and Annual Accounts

Table A2 – Demographic assumptions

APPENDIX B

Age at Late Retirement - Adjustment to Pension - Unisex										
	60	61	62	63	64	65	66	67	68	69
months										
0	1.000	1.029	1.060	1.093	1.129	1.168	1.210	1.256	1.306	1.362
1	1.002	1.031	1.063	1.096	1.132	1.171	1.214	1.260	1.311	1.367
2	1.005	1.034	1.065	1.099	1.135	1.175	1.217	1.264	1.316	1.372
3	1.007	1.037	1.068	1.102	1.138	1.178	1.221	1.268	1.320	1.377
4	1.010	1.039	1.071	1.105	1.142	1.182	1.225	1.273	1.325	1.382
5	1.012	1.042	1.074	1.108	1.145	1.185	1.229	1.277	1.329	1.387
6	1.014	1.044	1.076	1.111	1.148	1.189	1.233	1.281	1.334	1.393
7	1.017	1.047	1.079	1.114	1.151	1.192	1.237	1.285	1.339	1.398
8	1.019	1.049	1.082	1.117	1.155	1.196	1.240	1.289	1.343	1.403
9	1.022	1.052	1.085	1.120	1.158	1.199	1.244	1.294	1.348	1.408
10	1.024	1.055	1.087	1.123	1.161	1.203	1.248	1.298	1.353	1.413
11	1.026	1.057	1.090	1.126	1.164	1.206	1.252	1.302	1.357	1.418
Note: To obtain the factor to calculate the reduced pension upon early payment at age Y, divide the factor age Y by the factor at the Normal Retirement Age								actor at		
Ag	e at Late F	Retirement	t - Adjustm	ent to Pen	sion - Unis	ех				
	70	71	72	73	74	75				
months										
0	1.423	1.491	1.566	1.650	1.742	1.845				
1	1.429	1.497	1.573	1.657	1.750					
2	1.435	1.504	1.580	1.665	1.759					
3	1.440	1.510	1.587	1.673	1.768					
4	1.446	1.516	1.594	1.680	1.776					
5	1.452	1.522	1.601	1.688	1.785					
6	1.457	1.529	1.608	1.696	1.793					
7	1.463	1.535	1.615	1.703	1.802					
8	1.469	1.541	1.622	1.711	1.810					
9	1.474	1.547	1.629	1.719	1.819					
10	1.480	1.554	1.636	1.727	1.827					
11	1.486	1.560	1.643	1.734	1.836					
Note: I o obtain the factor to calculate the reduced pension upon early payment at age Y, divide the factor at age Y by the factor at the Normal Retirement Age										

In-Service Late Retirement factors for AFPS 15

The notes on the following page 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.
- The process for adjusting the pension accrued post-Normal Pension Age is more complicated – please see GAD note "Pension Accrued Post NPA 60 – Methodology for Late Payment Adjustment"
- 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.