

AFPS 15 Non-Club Transfers-In/Out

Introduction

1. The purpose of this note is to describe our understanding of the process of receiving/sending pension transfers into/from the AFPS 15 from/to pension schemes that are not members of the Public Sector Transfer Club ("non-Club transfers").
2. In producing this note we have only considered what is specific to transfers into and out of AFPS 15; we have not considered what other public service schemes are doing in regards to transfers post 2015.
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Current proposal

Transfers-In

5. When a transfer-in is accepted, the MOD will receive a cash sum from the transferring scheme. This needs to be converted, using factors, into an amount of pension to be awarded in the AFPS 15.
6. Such cases will be dealt with on an individual basis by referral to GAD.
7. The pension awarded will be revalued in an identical manner to the CARE pension that accrues due to subsequent service, i.e. currently with reference to AWE. Please see sections "Interaction of Transferred-In Pension with AFPS 15 Benefits" and "Treatment of Transferred-In Pension When Exercising Options and Other Scenarios" for a further discussion of the nature of the pension awarded.

Transfers-Out

8. In order to facilitate a transfer-out, a Cash Equivalent Transfer Value ("CETV") is needed. This is calculated as follows:
 - a. All relevant indexations (specific to AF15) are applied to the CARE pension from the date of leaving to the date of transfer (i.e. any in-service revaluation not yet applied up to the date of leaving and any deferred revaluation from the date of leaving to the date of transfer). Note that the revaluations will in effect only apply up to the end of the last complete financial year prior to transfer; and
 - b. The factors for the member's age at transfer – from the standard Club table for the member's DPA – are applied to the notional amount of member's pension, member's lump sum (zero) and spouse's pension (62.5% of member's pension) to generate a CETV.

Administration and Factor Requirements

9. As discussed in paragraph 6, GAD will produce factors for each individual non-Club transfer-in case. As such there is no need to maintain a table of factors.
10. For the CETV calculation as per paragraph 8.b, it will be necessary to maintain the standard Club factor tables for all possible integer DPAs. See Annex A for the expected format of these tables.
11. As discussed in paragraph 7, non-Club transferred-in pensions will revalue at the same rate as the CARE pension (i.e. currently AWE) and so no extra factors will be needed in this respect.
12. We understand that non-Club transferred-in pensions will be subject to the same deferred and in-payment indexation as pensions accrued in the AFPS 15 (i.e. currently CPI in both cases). As such no additional factor tables will be needed in this respect.

Example Calculations

13. The next paragraph shows the calculations – using indicative factor values – that would need to be applied to a member of AFPS 15 transferring-in a pension from a non-Club scheme.
14. A member of the AFPS 15 is granted a non-Club transfer-in at age 35. The transferring scheme provides a CETV of £100,000. Her SPA is 68. The pension awarded in AFPS 15 is:

$$\begin{aligned}
 & \frac{£100,000}{F_p(\text{relevant non-Club pension factor}) + 0.625 \times F_{wid}(\text{relevant non-Club spouse's factor})} \\
 &= \frac{£100,000}{20^* + 0.625 \times 5^*} \\
 &= £4,324
 \end{aligned}$$

*indicative values

After each subsequent scheme year of service, her pension will be uprated by the in-service revaluation index of the AFPS 15 (currently AWE).

15. This paragraph shows the calculations – using indicative factor and index values – that would need to be applied to a former member of AFPS 15 transferring-out an AFPS 15 pension to a non-Club scheme. Her CARE pension at the point of leaving is £5,500 (note that this would not include the in-service revaluation for the financial year in which the member left service). Her age at transfer is 35. The same lettering as paragraph 8 has been used.

- a. $(\text{Deferred pension at leaving}) \times (\text{relevant in-service revaluation to date of leaving}) \times (\text{relevant deferred revaluation from leaving to transfer date})$
 $= £5,500 \times 1.01^* \times 1.07^*$
 $= £5,944$
- b. $(\text{Member's pension}) \times F_p(\text{standard club NPA 68}) + (\text{Spouse's pension}) \times F_{wid}(\text{standard club NPA 68})$
 $= (£5,944 \times 10^*) + (62.5\% \times £5,944 \times 3.5^*)$
 $= £72,443$

*indicative values

Impact of Transferred-In Pension on the Vesting Period

16. If a transfer-in is accepted from an occupational pension scheme, the period of time the member was an active member of the previous occupational pension scheme will be counted as qualifying service in the AFPS 15 scheme.
17. If a transfer-in is accepted from a personal pension scheme, the member is automatically eligible to deferred membership of AFPS 15, regardless of whether or not they have two years of qualifying service.

Interaction of Transferred-In Pension with AFPS 15 Benefits

18. If a transferred-in member serves until NPA 60 and then retires, the transferred-in pension will come into payment immediately alongside the regular AF15 pension. It is our understanding that the transferred-in pension will be indexed in payment at the same rate as pensions accrued under AFPS 15 (i.e. currently CPI).
19. If a transferred-in member leaves service before NPA 60 with only a deferred pension, the transferred-in pension will be payable from DPA alongside the deferred pension. It is our understanding that the transferred-in pension will be revalued at the same deferred revaluation rate as pensions accrued under AFPS 15 for the period between leaving service and DPA (i.e. currently CPI).
20. For the cases where a transferred-in member leaves service before NPA 60 with entitlement to EDP benefits, the transferred-in pension will impact on EDP benefits as per the AF15 deferred CARE pension.
21. Our understanding of how the transferred-in pension will interact with ill-health benefits is as follows:
 - a. Tier 1: the transferred-in pension will not impact on Tier 1 lump sums awarded where a member retires on Tier 1 ill-health pre the EDP point; however it will impact on EDP benefits awarded where a member leaves on Tier 1 ill-health after the EDP point as per paragraph 20. In either case the transferred-in pension will be payable from DPA as per paragraph 19.
 - b. Tier 2: The transferred-in pension will become a deferred pension if it was transferred-in less than 2 years prior to the date of retirement; otherwise it will be payable immediately.
 - c. Tier 3: The transferred-in pension will become a deferred pension if it was transferred-in less than 2 years prior to the date of retirement; otherwise the treatment of the transferred-in pension depends on the amount of enhanced service the member is awarded as follows:
 - (i) If, after the service enhancement has been applied, the Tier 3 ill-health pension from AF15 service is based on more than (or is equal to) the lower of 25 years' service and total possible service to NPA (i.e. the minimum service guarantee does not bite), the transferred-in pension will be paid immediately.
 - (ii) If, after the service enhancement has been applied, the Tier 3 ill-health pension from AF15 service is based on less than the lower of 25 years' service and total possible service to NPA (i.e. the minimum service guarantee bites), the greater of the following will be paid:
 1. The post-guarantee enhanced pension (i.e. based on 25 years' service and total possible service to NPA); and
 2. The aggregate of the pre-guarantee enhanced pension and the transferred-in pension.

i.e. the transferred-in pension will only be paid if adding it to the pre-guarantee enhanced pension yields a larger pension than the post-guarantee enhanced pension.

22. Our understanding of how the transferred-in pension will impact on death benefits is as follows:

- a. Death in service: since the pension is based on the Tier 3 ill-health pension, the transferred-in pension impacts on the death in service pension as per paragraph 21.c. The death in service lump sum is based on pensionable pay and so the transferred-in pension does not impact on this.
- b. Death in deferment: the transferred-in pension is included in the calculation of the death in deferment pension of 62.5% of the member's deferred pension and death in deferment lump sum of 3 x member's deferred pension.
- c. Death in receipt: the transferred-in pension is included in the calculation of the death in service pension of 62.5% of the member's pension and in the calculation of the guarantee payment when death occurs within 5 years of retirement.

Treatment of Transferred-In Pension When Exercising Options and Other Scenarios

23. Any commutation options chosen for the benefits alongside which the transferred-in pension is eventually paid will also apply to the transferred-in pension. Such options will be subject to the relevant scheme rules and HMRC limits.
24. Where a member chooses early or late payment of deferred benefits, this choice will automatically be applied to any transferred-in pension. The general early and late retirement factors - whose format is given in Annex B - will be used to adjust the amount of transferred-in pension to be paid in such cases.
25. Where a member chooses to stay in service beyond NPA 60, the late payment uplift due on leaving service can be calculated identically to that given to the AFPS 15 benefits.
26. Similar to the treatment of regular AF15 pension, where a member who has a transferred-in pension leaves and then rejoins, the transferred-in pension will be revalued at the relevant in-service revaluation rate for the duration away from service only if the member rejoins within 5 years. Otherwise it will become a deferred pension and will be revalued at the AFPS 15 deferred revaluation rate until coming into payment.
27. It is our understanding that transferred-in pension will count towards the AFPS 75 and 05 abatement for rejoiners with service in both AFPS 15 and AFPS 75 or 05 (as per the treatment of Added Pension).
28. Subject to the same rules and limits as regular pension, transferred-in pension can be allocated. Our understanding is that:
- a. pension cannot be allocated if the member has retired on Tier 2/3/serious ill-health; and
 - b. the maximum permitted percentage of pension that can be allocated must ensure that the dependant's pension does not exceed the member's pension on death after age 75 and cannot be greater than 37.5%.
29. If the transferred-in pension is converted into an addition to the EDP benefits, these payments will be made under the EDP scheme; in all other cases the payments will be made under the AFPS 15. We understand that this is consistent with current arrangements for transferred-in pensions under AFPS 05.
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Member Communications

30. We understand that active members will be provided with information on their transferred-in pension as part of their Annual Benefit Statement.

Allowing for Potential EDP Benefits

31. For younger members (below age 40) who transfer to AFPS 15, there is the possibility that they will retire before NPA with EDP benefits (we understand that transferred-in service will not count towards the EDP qualification criteria – hence only members who transfer before age 40 could reach 20 years' Armed Forces service before NPA and hence potentially qualify for EDP benefits).

32. We understand that the transferred-in CARE pension is to impact on EDP benefits as per the AF15 deferred CARE pension; this will affect the potential value of the transferred-in pension pot. GAD will make allowance for potential EDP benefits as appropriate in the non-Club transfer-in factors used in individual cases.

Treatment of Pre-2015 Accrued Rights Benefits Transferred from AFPS

33. Where a member transfers out of AFPS 15 and has some final salary accrued benefits from the existing schemes, we understand that the accrued benefits will be treated in the same way as is currently the case.

Alan Dorn
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06 October 2014

Annex A – Expected format of Club 2015 factor tables. One standard Club table required for each possible integer DPA i.e. initially tables for DPA 65, 66, 67 and 68. May be worth adding more tables for future-proofing.

| Age last birthday at relevant date | Gross Pension of £1 per annum (F_p) | Lump Sum of £1 (F_{ls}) | Survivor's Pension of £1 per annum (F_{wid}) | Deduction for GMP of £1 pa (F_{gmp}) | Deduction for NI Modification of £1 pa (F_{ni}) |
|------------------------------------|-----------------------------------------|-----------------------------|--------------------------------------------------|------------------------------------------|-----------------------------------------------------|
| 16 | x | x | x | x | x |
| 17 | x | x | x | x | x |
| 18 | x | x | x | x | x |
| 19 | x | x | x | x | x |
| 20 | x | x | x | x | x |
| 21 | x | x | x | x | x |
| 22 | x | x | x | x | x |
| 23 | x | x | x | x | x |
| 24 | x | x | x | x | x |
| 25 | x | x | x | x | x |
| 26 | x | x | x | x | x |
| 27 | x | x | x | x | x |
| 28 | x | x | x | x | x |
| 29 | x | x | x | x | x |
| 30 | x | x | x | x | x |
| 31 | x | x | x | x | x |
| 32 | x | x | x | x | x |
| 33 | x | x | x | x | x |
| 34 | x | x | x | x | x |
| 35 | x | x | x | x | x |
| 36 | x | x | x | x | x |
| 37 | x | x | x | x | x |
| 38 | x | x | x | x | x |
| 39 | x | x | x | x | x |
| 40 | x | x | x | x | x |
| 41 | x | x | x | x | x |
| 42 | x | x | x | x | x |
| 43 | x | x | x | x | x |
| 44 | x | x | x | x | x |
| 45 | x | x | x | x | x |
| 46 | x | x | x | x | x |
| 47 | x | x | x | x | x |
| 48 | x | x | x | x | x |
| 49 | x | x | x | x | x |
| 50 | x | x | x | x | x |
| 51 | x | x | x | x | x |
| 52 | x | x | x | x | x |
| 53 | x | x | x | x | x |
| 54 | x | x | x | x | x |
| 55 | x | x | x | x | x |
| 56 | x | x | x | x | x |
| 57 | x | x | x | x | x |
| 58 | x | x | x | x | x |
| 59 | x | x | x | x | x |
| 60 | x | x | x | x | x |
| 61 | x | x | x | x | x |
| 62 | x | x | x | x | x |
| 63 | x | x | x | x | x |
| 64 | x | x | x | x | x |
| 65 | x | x | x | x | x |
| 66 | x | x | x | x | x |
| 67 | x | x | x | x | x |
| 68 | x | x | x | x | x |
| 69 | x | x | x | x | x |
| 70 | x | x | x | x | x |
| 71 | x | x | x | x | x |
| 72 | x | x | x | x | x |
| 73 | x | x | x | x | x |
| 74 | x | x | x | x | x |

Annex B - Format of tables for General Early and Late Retirement and Added Pension Adjustment Factors in AFPS 15

The following table formats are expected to be used for adjustments to pension in AFPS 75, 05 and 15. The factors are unisex. Please see the notes beneath the tables.

| Age at Early/Late Retirement - Adjustment to Pension - Unisex (AFPS75, 05 and 15) | | | | | | | | | | |
|-----------------------------------------------------------------------------------|----|----|----|----|----|----|----|----|----|----|
| | 55 | 56 | 57 | 58 | 59 | 60 | 61 | 62 | 63 | 64 |
| months | | | | | | | | | | |
| 0 | x | x | x | x | x | x | x | x | x | x |
| 1 | x | x | x | x | x | x | x | x | x | x |
| 2 | x | x | x | x | x | x | x | x | x | x |
| 3 | x | x | x | x | x | x | x | x | x | x |
| 4 | x | x | x | x | x | x | x | x | x | x |
| 5 | x | x | x | x | x | x | x | x | x | x |
| 6 | x | x | x | x | x | x | x | x | x | x |
| 7 | x | x | x | x | x | x | x | x | x | x |
| 8 | x | x | x | x | x | x | x | x | x | x |
| 9 | x | x | x | x | x | x | x | x | x | x |
| 10 | x | x | x | x | x | x | x | x | x | x |
| 11 | x | x | x | x | x | x | x | x | x | x |

Note: To obtain the factor to calculate the reduced/increased pension upon early/late payment at age Y, divide the factor at age Y by the factor at the Normal Pension Age

| Age at Early/Late Retirement - Adjustment to Pension - Unisex (AFPS75, 05 and 15) | | | | | | | | | | | |
|-----------------------------------------------------------------------------------|----|----|----|----|----|----|----|----|----|----|----|
| | 65 | 66 | 67 | 68 | 69 | 70 | 71 | 72 | 73 | 74 | 75 |
| months | | | | | | | | | | | |
| 0 | x | x | x | x | x | x | x | x | x | x | x |
| 1 | x | x | x | x | x | x | x | x | x | x | x |
| 2 | x | x | x | x | x | x | x | x | x | x | x |
| 3 | x | x | x | x | x | x | x | x | x | x | x |
| 4 | x | x | x | x | x | x | x | x | x | x | x |
| 5 | x | x | x | x | x | x | x | x | x | x | x |
| 6 | x | x | x | x | x | x | x | x | x | x | x |
| 7 | x | x | x | x | x | x | x | x | x | x | x |
| 8 | x | x | x | x | x | x | x | x | x | x | x |
| 9 | x | x | x | x | x | x | x | x | x | x | x |
| 10 | x | x | x | x | x | x | x | x | x | x | x |
| 11 | x | x | x | x | x | x | x | x | x | x | x |

Note: To obtain the factor to calculate the reduced/increased pension upon early/late payment at age Y, divide the factor at age Y by the factor at the Normal Pension Age

Notes

1. Ages are given in years and complete months. Part months are ignored.
2. To calculate a reduction/increase to pension, divide the factor at early/late retirement age by the factor at the normal pension age. This is then multiplied by the unadjusted pension to calculate the adjusted pension.
3. These factors are not applicable for the uplift required to pensions that come into late payment when an active member leaves service after NPA 60 (such factors have been provided separately). They are applicable for the cases:
 - where a member leaves service at NPA 60 and delays receipt of their pension;
 - where a deferred member delays receiving their pension beyond their Deferred Pension Age ("DPA"). To calculate the LRF, their NPA will, for this purpose, be their DPA; and

- where an active member, who has served beyond NPA 60, then delays taking their pension immediately on exit. To calculate the LRF, their NPA will, for this purpose, be the age at which they left service.
4. To adjust the Added Pension upon a member leaving service with only entitlement to deferred benefits, divide the factor at the member's DPA=SPA by the factor for Age 60 years and 0 months and multiply the result by the Added Pension amount.
 5. Pensions payable to a member's spouse, civil partner, other adult dependant and/or eligible children should not be reduced/increased.
 6. Before using the factors, the member's pension should have the relevant increases applied from the date of leaving the scheme until the date of early/late retirement.
 7. These factors should not be used for adjusting pension debits or credits or for Scheme Pays adjustments.
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