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Dear Colette

Actuarial factors for the Armed Forces pension arrangements Trivial commutation

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 trivial commutation factors for eligible members of the Armed Forces pension arrangements in accordance with scheme regulations, together with new tables of factors.
2. As discussed, trivial commutation factors are "GAD-controlled" factors and so these factors are effective immediately. If you intend to delay implementation, you should seek legal advice on the implications.
3. The 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.
4. GAD seeks to achieve a high standard in all our work. Please go to our website for details of the standards we apply.

Background

5. Trivial commutation refers to the option of paying a single lump sum to members or dependants in place of a small pension. Actuarial factors are needed to determine the lump sum payable.
6. The previous trivial commutation factors were issued on 2 September 2011 following the introduction of the new SCAPE discount rate in the March 2011 Budget.
7. The review is being conducted in light of the actuarial valuation of the Armed Forces pension arrangements carried out as at 31 March 2012 which was completed on 24 February 2015. We have also been asked to extend the tables of factors for trivial commutation given the changes to HMRC age limits for trivial commutation.

Armed forces pensions regulations

8. Rule 116 of the Armed Forces Pensions Regulations, Rule J.8 of the Armed Forces Pension Scheme Order 2005 and Rule J.10 of the Army/Navy/Air Force (AFPS 75 and Attributable Benefits Scheme) Order 2010 cover trivial commutation in AFPS 15, AFPS 05 and AFPS 75 respectively.
9. These regulations state that AFPS 05 and AFPS 75 will provide “...a lump sum of such an amount as the Scheme actuary advises represents the capital value of the pension”.
10. The regulations for AFPS15 state the AFPS 15 will provide “...a lump sum of such an amount as the scheme manager after consultation with the scheme actuary advises represents the capital value of the pension”.
11. There are no references in the regulations as to how these trivial commutation factors should be derived or how regularly they should be reviewed.
12. The previous tables of trivial commutation factors were determined in terms of actuarial equivalence to the pensions given up, on assumptions consistent with those used to set employer contributions to the scheme under the SCAPE methodology.
13. As set out in Alan’s letter of 7 April 2015 and agreed with John McCullagh, the new factors set out in this letter follow this principle.

Key actuarial assumptions used to determine the new factors

14. The major assumptions to consider for the trivial commutation factors are the discount rate and the mortality assumptions.
15. Appendix A summarises the main assumptions for calculating the new trivial commutation 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.

Mortality Assumptions

18. Suitable data is not available in respect of members and dependants who have received trivial commutation lump sums to allow us to determine whether the mortality experience of such individuals differs from the mortality experience of scheme members and dependants in normal health. These factors should not be applied for members in permanent serious ill health, who have the option to commute using a factor of 5:1 under separate provisions.
19. However, given the small size of the pensions involved, the assumed mortality rates will not have a material effect on scheme financing. As a result, we have not carried out more detailed consideration of the mortality assumption.
20. The previous factors used the “PA92” standard tables adjusted to reflect the available experience for the mortality of AFPS pensioners. Future improvements in post-retirement

mortality were based on those underlying the ONS 2008-based principal population projections for the UK.

21. For the new factors, we have considered the assumptions adopted for the 2012 actuarial valuation for post-retirement mortality which were based on the “S1” standard tables, adjusted to reflect the latest available experience for the mortality of AFPS pensioners. The mortality rates of 110% of S1NXA were arrived at by combining the 2012 valuation post-retirement mortality for officers and other ranks based on the relative proportions of officers and other ranks in service. Future improvements in post-retirement mortality are based on those underlying the ONS 2012-based principal population projections for the UK.

Allowance for remarriage

22. The cessation of benefits on remarriage in AFPS75 (including FTRS and NRPS) was removed by a government announcement on 8 November 2014 for any marriages taking place from April 2015. With effect from 8 November 2014, it was therefore no longer appropriate to allow for cessation on remarriage in trivial commutation factors.
23. In the previous factor review, an assumption for cessation of benefits on remarriage was used for AFPS 75 (including FTRS and NRPS) widow(er)s' factors. The members' factors did not allow for cessation on remarriage as the impact was not material.
24. The new factors do not include any allowance for cessation on remarriage. This results in some of the new factors for AFPS 75 (including FTRS and NRPS) being more generous than the previous factors, with the effect being more significant for widows(er)s at younger ages.
25. As a result of this change, the same set of factors can now be used for all of the Armed Forces pension arrangements.
26. As you know, we have discussed the impact on AFPS 75 (including FTRS and NRPS) widow(er)s' trivial commutation cases processed on the previous factors with an effective date after 8 November 2014. Given that the impact is small for older widow(er)s, we do not recommend any action needs to be taken in respect of cases whether the widow(er) was age 55 or older. We understand that you are investigating with the administrators whether there were any relevant cases since 8 November 2014 where the widow(er) was under age 55.

Proportion married

27. We have assumed that 90% of members taking trivial commutation are married (or where appropriate have a civil or registered partner) at death. This is a simplification of the approach used in the 2012 actuarial valuation which is not expected to have a material impact on the trivial commutation factors calculated.

Guaranteed Minimum Pensions (GMPs)

28. GMPs are sex related and there are complex interactions with scheme benefits, particularly where GMP payment age differs from normal pension age. There remains some legislative uncertainty over the interaction of GMPs and other scheme benefits.
29. As done in the previous factor review, we have not made adjustment for GMPs in the new factors on grounds of simplicity. This results in a single set of factors with GMP adjustments set to zero, which significantly reduces the work (and hence cost) required

by GAD to produce the factors. It also means that DBS will not need to collect GMP data in order to calculate trivial commutation amounts. As advised previously, we have preserved the structure of the factors so that DBS do not need to revise their calculation routines. You should be aware that we have not obtained any legal advice about the validity of this approach.

30. The simplification will mean for some members there is a small additional cost compared to the true “cost to scheme” – ie the factors are slightly favourable to members. In our opinion this is not material to the scheme’s overall financial position, because:

(a) By definition the factors are only used to commute trivial pensions and the amounts involved are very small.

(b) GMPs only accrued between 1978 and 1997 in respect of contracting-out of the State second pension.

31. As you are aware, GMPs which are subject to s148 revaluation orders cannot be trivially commuted until they come into payment.

Other considerations

32. In the previous review of trivial commutation factors, separate factors were used for males and females but the same factors were used for all ranks of members. We are not aware of any relevant changes in circumstances and so we have prepared the new factors using the same approach. The factors are similar across all ranks so this administrative simplification does not make a significant difference to the outcomes for members.

33. The new factors are in some cases more generous and in other cases less generous than the previous factors. This is because the change in the mortality assumptions affects different ages to differing extents, and because some factors are also affected by the removal of cessation on remarriage.

34. We would expect the new factors to be broadly cost-neutral to the scheme by reference to the assumptions we would expect to be used to determine employer contributions under the SCAPE methodology.

New factors

35. Appendix B sets out new factors for trivial commutation for all Armed Forces schemes. These are based on the assumptions set out in Appendix A.

36. The factors in the tables represent the lump sum payable when giving up a pension of £1 pa. The new factors are provided in a similar format to the previous factors, but with the requested table extensions.

37. The factors can also be used for equivalent pension benefit (EPB) cases.

38. 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 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

39. Please would you arrange for these factors to be implemented via DBS? The factors are determined by the Scheme Actuary and therefore should be implemented with effect from the date of this letter. However, we understand that there may be administrative difficulties in implementing the factors with immediate effect. If you intend to delay implementation then you should seek legal advice on the implications.
40. We will also shortly provide an updated version of our factors spreadsheet which includes the new trivial commutation factors. We note that you or DBS may also need to review any guidance which references these factors.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Joanne Rigby'.

Joanne Rigby
Consulting Actuary

APPENDIX A

Summary of assumptions for AFPS trivial commutation factors

Table A1 – Financial assumptions

Assumption	Rate	Notes
Discount rate (in excess of CPI inflation)	3.00%	In line with long term SCAPE rate

Table A2 – Demographic assumptions

Assumption	Notes
Post-retirement mortality	
Base mortality	“S1” tables issued by the Actuarial Profession. Mortality of 110% of S1NXA based on combining the 2012 valuation mortality for officers and other ranks based on the relative proportions of officers and other ranks in service.
Future mortality improvements	ONS 2012-based principal population projections for the UK, consistent with approach adopted for 2012 actuarial valuation and annual resource accounting.
Other	
Proportion married at death	90%
Cessation due to remarriage for widow(er)s	None
Age difference	Males older than females by 3 years at all ages.
GMPs	No separate allowance.

APPENDIX B

Trivial commutation factors

Members' Trivial Commutation Factors All Armed Forces schemes

TABLE 0-601A, 1-601A, 2-601A, 3-601A, 4-601A, 5-601A

MALES

Age last birthday at commutation date	Gross member's pension of £1pa	Contingent spouse's pension of £1pa	Deduction for Pre-88 GMP of £1pa	Deduction for Post-88 GMP of £1pa
55	20.07	3.28	0.00	0.00
56	19.66	3.35	0.00	0.00
57	19.25	3.41	0.00	0.00
58	18.83	3.48	0.00	0.00
59	18.41	3.54	0.00	0.00
60	17.97	3.60	0.00	0.00
61	17.53	3.66	0.00	0.00
62	17.09	3.71	0.00	0.00
63	16.63	3.77	0.00	0.00
64	16.17	3.81	0.00	0.00
65	15.70	3.86	0.00	0.00
66	15.23	3.90	0.00	0.00
67	14.74	3.94	0.00	0.00
68	14.25	3.98	0.00	0.00
69	13.74	4.02	0.00	0.00
70	13.23	4.05	0.00	0.00
71	12.71	4.07	0.00	0.00
72	12.19	4.09	0.00	0.00
73	11.67	4.10	0.00	0.00
74	11.16	4.10	0.00	0.00
75	10.65	4.09	0.00	0.00
76	10.14	4.06	0.00	0.00
77	9.65	4.03	0.00	0.00
78	9.16	3.98	0.00	0.00
79	8.67	3.93	0.00	0.00
80	8.18	3.87	0.00	0.00
81	7.69	3.81	0.00	0.00
82	7.22	3.74	0.00	0.00
83	6.74	3.65	0.00	0.00
84	6.28	3.55	0.00	0.00
85	5.83	3.44	0.00	0.00
86	5.40	3.32	0.00	0.00
87	4.99	3.18	0.00	0.00
88	4.60	3.04	0.00	0.00
89	4.25	2.90	0.00	0.00
90	3.93	2.74	0.00	0.00

Members' Trivial Commutation Factors
All Armed Forces schemes

TABLE 0-601B, 1-601B, 2-601B, 3-601B, 4-601B, 5-601B

FEMALES

Age last birthday at commutation date	Gross member's pension of £1pa	Contingent spouse's pension of £1pa	Deduction for Pre-88 GMP of £1pa	Deduction for Post-88 GMP of £1pa
55	20.98	1.55	0.00	0.00
56	20.61	1.56	0.00	0.00
57	20.24	1.57	0.00	0.00
58	19.85	1.57	0.00	0.00
59	19.46	1.58	0.00	0.00
60	19.06	1.58	0.00	0.00
61	18.64	1.59	0.00	0.00
62	18.22	1.59	0.00	0.00
63	17.79	1.59	0.00	0.00
64	17.35	1.59	0.00	0.00
65	16.90	1.59	0.00	0.00
66	16.44	1.59	0.00	0.00
67	15.97	1.58	0.00	0.00
68	15.49	1.58	0.00	0.00
69	15.00	1.57	0.00	0.00
70	14.50	1.56	0.00	0.00
71	14.00	1.55	0.00	0.00
72	13.48	1.53	0.00	0.00
73	12.97	1.52	0.00	0.00
74	12.45	1.50	0.00	0.00
75	11.94	1.48	0.00	0.00
76	11.42	1.45	0.00	0.00
77	10.91	1.42	0.00	0.00
78	10.40	1.38	0.00	0.00
79	9.89	1.33	0.00	0.00
80	9.37	1.28	0.00	0.00
81	8.86	1.23	0.00	0.00
82	8.35	1.17	0.00	0.00
83	7.85	1.12	0.00	0.00
84	7.35	1.06	0.00	0.00
85	6.87	1.00	0.00	0.00
86	6.41	0.95	0.00	0.00
87	5.97	0.90	0.00	0.00
88	5.56	0.86	0.00	0.00
89	5.17	0.81	0.00	0.00
90	4.81	0.77	0.00	0.00

Dependants' Trivial Commutation Factors
All Armed Forces schemes

TABLE 0-602A, 1-602A, 2-602A, 3-602A, 4-602A, 5-602A

MALES

Age last birthday at commutation date	Gross widower's pension of £1pa	Deduction for Pre-88 GMP of £1pa	Deduction for Post-88 GMP of £1pa
21	28.99	0.00	0.00
22	28.83	0.00	0.00
23	28.67	0.00	0.00
24	28.50	0.00	0.00
25	28.33	0.00	0.00
26	28.15	0.00	0.00
27	27.96	0.00	0.00
28	27.77	0.00	0.00
29	27.57	0.00	0.00
30	27.37	0.00	0.00
31	27.16	0.00	0.00
32	26.95	0.00	0.00
33	26.73	0.00	0.00
34	26.51	0.00	0.00
35	26.28	0.00	0.00
36	26.04	0.00	0.00
37	25.80	0.00	0.00
38	25.55	0.00	0.00
39	25.30	0.00	0.00
40	25.04	0.00	0.00
41	24.77	0.00	0.00
42	24.49	0.00	0.00
43	24.21	0.00	0.00
44	23.92	0.00	0.00
45	23.62	0.00	0.00
46	23.30	0.00	0.00
47	22.98	0.00	0.00
48	22.65	0.00	0.00
49	22.31	0.00	0.00
50	21.96	0.00	0.00
51	21.59	0.00	0.00
52	21.22	0.00	0.00
53	20.85	0.00	0.00
54	20.46	0.00	0.00
55	20.07	0.00	0.00
56	19.66	0.00	0.00
57	19.25	0.00	0.00
58	18.83	0.00	0.00
59	18.41	0.00	0.00
60	17.97	0.00	0.00
61	17.53	0.00	0.00
62	17.09	0.00	0.00
63	16.63	0.00	0.00
64	16.17	0.00	0.00
65	15.70	0.00	0.00
66	15.23	0.00	0.00
67	14.74	0.00	0.00
68	14.25	0.00	0.00
69	13.74	0.00	0.00
70	13.23	0.00	0.00
71	12.71	0.00	0.00
72	12.19	0.00	0.00
73	11.67	0.00	0.00
74	11.16	0.00	0.00
75	10.65	0.00	0.00
76	10.14	0.00	0.00
77	9.65	0.00	0.00
78	9.16	0.00	0.00
79	8.67	0.00	0.00
80	8.18	0.00	0.00
81	7.69	0.00	0.00
82	7.22	0.00	0.00
83	6.74	0.00	0.00
84	6.28	0.00	0.00
85	5.83	0.00	0.00
86	5.40	0.00	0.00
87	4.99	0.00	0.00
88	4.60	0.00	0.00
89	4.25	0.00	0.00
90	3.93	0.00	0.00

Dependants' Trivial Commutation Factors
All Armed Forces schemes

TABLE 0-602B, 1-602B, 2-602B, 3-602B, 4-602B, 5-602B

FEMALES

Age last birthday at commutation date	Gross widower's pension of £1pa	Deduction for Pre-88 GMP of £1pa	Deduction for Post-88 GMP of £1pa
21	29.33	0.00	0.00
22	29.18	0.00	0.00
23	29.02	0.00	0.00
24	28.86	0.00	0.00
25	28.70	0.00	0.00
26	28.53	0.00	0.00
27	28.36	0.00	0.00
28	28.18	0.00	0.00
29	27.99	0.00	0.00
30	27.80	0.00	0.00
31	27.61	0.00	0.00
32	27.41	0.00	0.00
33	27.20	0.00	0.00
34	26.99	0.00	0.00
35	26.77	0.00	0.00
36	26.55	0.00	0.00
37	26.32	0.00	0.00
38	26.08	0.00	0.00
39	25.84	0.00	0.00
40	25.59	0.00	0.00
41	25.34	0.00	0.00
42	25.07	0.00	0.00
43	24.81	0.00	0.00
44	24.53	0.00	0.00
45	24.24	0.00	0.00
46	23.95	0.00	0.00
47	23.65	0.00	0.00
48	23.34	0.00	0.00
49	23.02	0.00	0.00
50	22.70	0.00	0.00
51	22.37	0.00	0.00
52	22.03	0.00	0.00
53	21.69	0.00	0.00
54	21.34	0.00	0.00
55	20.98	0.00	0.00
56	20.61	0.00	0.00
57	20.24	0.00	0.00
58	19.85	0.00	0.00
59	19.46	0.00	0.00
60	19.06	0.00	0.00
61	18.64	0.00	0.00
62	18.22	0.00	0.00
63	17.79	0.00	0.00
64	17.35	0.00	0.00
65	16.90	0.00	0.00
66	16.44	0.00	0.00
67	15.97	0.00	0.00
68	15.49	0.00	0.00
69	15.00	0.00	0.00
70	14.50	0.00	0.00
71	14.00	0.00	0.00
72	13.48	0.00	0.00
73	12.97	0.00	0.00
74	12.45	0.00	0.00
75	11.94	0.00	0.00
76	11.42	0.00	0.00
77	10.91	0.00	0.00
78	10.40	0.00	0.00
79	9.89	0.00	0.00
80	9.37	0.00	0.00
81	8.86	0.00	0.00
82	8.35	0.00	0.00
83	7.85	0.00	0.00
84	7.35	0.00	0.00
85	6.87	0.00	0.00
86	6.41	0.00	0.00
87	5.97	0.00	0.00
88	5.56	0.00	0.00
89	5.17	0.00	0.00
90	4.81	0.00	0.00