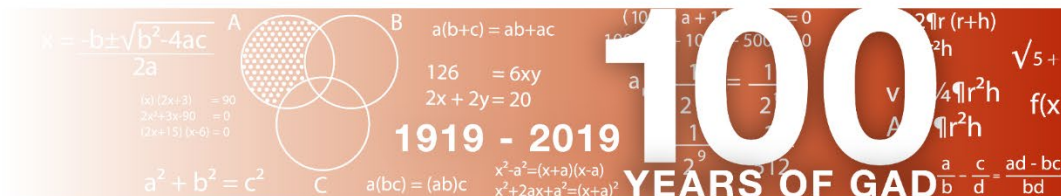




Government
Actuary's
Department



Armed Forces Pension Arrangements

Trivial 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 for the calculation of the lump sum due on the commutation of a small pension (“trivial commutation”) and the accompanying guidance to demonstrate how these factors should be applied to determine the lump sum.
- 1.2 This guidance note covers trivial commutation for eligible members of AFPS 15, AFPS 05, AFPS 75, RFPS, FTRS and NRPS.
- 1.3 This guidance supersedes any guidance previously issued for the purposes of trivial commutation calculations.
- 1.4 The factors provided in this note were prepared in light of our advice to MoD dated 28 February 2018 and 30 October 2018.
- 1.5 The spreadsheet sent to MoD on 4 December 2018 contains the relevant factors for use in trivial commutation calculations. The tables for use in trivial commutation cases are tables 601 and 602. The factors provided in Appendix B of this note are unchanged from the factors provided on 4 December 2018.
- 1.6 These factors are “GAD-Controlled” factors and so these factors came into force with effect from 4 December 2018.
- 1.7 Appendix A in this guidance note sets out the assumptions used in the determination of factors.

Implementation and Review

- 1.8 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 Scheme. Any questions concerning the application of the guidance should, in the first instance, be referred to MoD.
- 1.9 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.
- 1.10 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 Trivial commutation factors

Background

- 2.1 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.

Armed Forces pensions regulations

- 2.2 Rule 116 of the Armed Forces Pensions Regulations 2014, Rule J.8 of the Armed Forces Pension Scheme Order 2005 and Rule J.10 of the Army/Navy/Airforce (AFPS 75 and Attributable Benefits Scheme) Order 2010 cover trivial commutation in AFPS 15, AFPS 05 and AFPS 75 respectively.
- 2.3 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”.
- 2.4 The regulations for AFPS 15 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”.

Factor tables

- 2.5 The factors in Appendix B are unisex factors.
- 2.6 The factors provided can also be used for equivalent pension benefit (EPB) cases.
- 2.7 Examples of how the factors are used are given below:
- 2.8 A member age 60 has a scheme pension of £300 pa and a contingent spouse's pension of £112.50 pa. He has no other pension benefits elsewhere. He elects to take his benefits in the form of a trivial commutation at age 60. The trivial commutation lump sum paid to him at age 60 is:

$$\text{Trivial commutation lump sum} = £300 \times 19.12 + £112.50 \times 3.80 = £6,163.50$$

- 2.9 Where members are entitled to a scheme lump sum in addition to scheme pension (rather than by commutation only), the lump sum would be paid in addition to the trivially commuted pension.
- 2.10 A widow age 70 with a pension of £200 pa elects to trivially commute. The trivial commutation lump sum paid to her at age 70 is:

$$\text{Widow's trivial commutation lump sum} = £200 \times 14.42 = £2,884.00$$



3 Exclusions and limitations

- 3.1 This guidance should not be used for any purpose other than those set out in this guidance.
- 3.2 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.
- 3.3 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.
- 3.4 This guidance only covers the actuarial principles around the calculation and application of trivial commutation factors. Any legal advice in this area should be sought from an appropriately qualified person or source.
- 3.5 Scheme managers and administrators should satisfy themselves that trivial commutation calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting-out requirements.
- 3.6 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

- 3.7 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.
- 3.8 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%
Age difference between member and partner	Male members assumed to be 3 years older than partner. Female members assumed to be 3 years younger than partner.
Proportion married/partnered at retirement	Male 95%, Female 70%



Appendix B: Factor Tables

Members' Trivial Commutation factors

All Armed Forces schemes

Table 0-601A, 1-601A, 2-601A, 3-601A, 4-601A, 5-601A, 0-601B, 1-601B, 2-601B, 3-601B, 4-601B, 5-601B

Unisex

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	21.58	3.59	0.00	0.00
56	21.10	3.64	0.00	0.00
57	20.61	3.68	0.00	0.00
58	20.12	3.73	0.00	0.00
59	19.62	3.77	0.00	0.00
60	19.12	3.80	0.00	0.00
61	18.60	3.84	0.00	0.00
62	18.08	3.87	0.00	0.00
63	17.55	3.90	0.00	0.00
64	17.01	3.92	0.00	0.00
65	16.47	3.92	0.00	0.00
66	15.92	3.94	0.00	0.00
67	15.37	3.96	0.00	0.00
68	14.81	3.97	0.00	0.00
69	14.25	3.92	0.00	0.00
70	13.68	3.87	0.00	0.00
71	13.12	3.86	0.00	0.00
72	12.55	3.85	0.00	0.00
73	11.98	3.82	0.00	0.00
74	11.41	3.66	0.00	0.00
75	10.85	3.48	0.00	0.00
76	10.29	3.44	0.00	0.00
77	9.74	3.39	0.00	0.00
78	9.20	3.33	0.00	0.00
79	8.66	3.06	0.00	0.00
80	8.13	2.78	0.00	0.00
81	7.61	2.71	0.00	0.00
82	7.11	2.64	0.00	0.00
83	6.61	2.56	0.00	0.00
84	6.13	2.24	0.00	0.00
85	5.67	1.93	0.00	0.00
86	5.23	1.84	0.00	0.00
87	4.81	1.76	0.00	0.00
88	4.43	1.67	0.00	0.00
89	4.07	1.34	0.00	0.00
90	3.73	1.03	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, 0-602B, 1-602B, 2-602B, 3-602B, 4-602B, 5-602B

Unisex

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	33.49	0.00	0.00
22	33.26	0.00	0.00
23	33.03	0.00	0.00
24	32.79	0.00	0.00
25	32.54	0.00	0.00
26	32.29	0.00	0.00
27	32.03	0.00	0.00
28	31.77	0.00	0.00
29	31.50	0.00	0.00
30	31.23	0.00	0.00
31	30.94	0.00	0.00
32	30.66	0.00	0.00
33	30.36	0.00	0.00
34	30.06	0.00	0.00
35	29.75	0.00	0.00
36	29.44	0.00	0.00
37	29.12	0.00	0.00
38	28.79	0.00	0.00
39	28.46	0.00	0.00
40	28.12	0.00	0.00
41	27.77	0.00	0.00
42	27.42	0.00	0.00
43	27.06	0.00	0.00
44	26.69	0.00	0.00
45	26.32	0.00	0.00
46	25.93	0.00	0.00
47	25.54	0.00	0.00
48	25.14	0.00	0.00
49	24.74	0.00	0.00
50	24.33	0.00	0.00
51	23.91	0.00	0.00
52	23.48	0.00	0.00
53	23.04	0.00	0.00
54	22.60	0.00	0.00
55	22.15	0.00	0.00
56	21.69	0.00	0.00
57	21.23	0.00	0.00
58	20.76	0.00	0.00
59	20.28	0.00	0.00
60	19.79	0.00	0.00



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
61	19.29	0.00	0.00
62	18.78	0.00	0.00
63	18.26	0.00	0.00
64	17.73	0.00	0.00
65	17.20	0.00	0.00
66	16.66	0.00	0.00
67	16.11	0.00	0.00
68	15.55	0.00	0.00
69	14.99	0.00	0.00
70	14.42	0.00	0.00
71	13.85	0.00	0.00
72	13.27	0.00	0.00
73	12.69	0.00	0.00
74	12.12	0.00	0.00
75	11.54	0.00	0.00
76	10.97	0.00	0.00
77	10.40	0.00	0.00
78	9.84	0.00	0.00
79	9.29	0.00	0.00
80	8.74	0.00	0.00
81	8.20	0.00	0.00
82	7.66	0.00	0.00
83	7.15	0.00	0.00
84	6.64	0.00	0.00
85	6.16	0.00	0.00
86	5.70	0.00	0.00
87	5.26	0.00	0.00
88	4.86	0.00	0.00
89	4.48	0.00	0.00
90	4.13	0.00	0.00
91	3.80	0.00	0.00
92	3.49	0.00	0.00
93	3.20	0.00	0.00
94	2.94	0.00	0.00
95	2.71	0.00	0.00
96	2.50	0.00	0.00
97	2.31	0.00	0.00
98	2.16	0.00	0.00
99	2.02	0.00	0.00
100	1.90	0.00	0.00