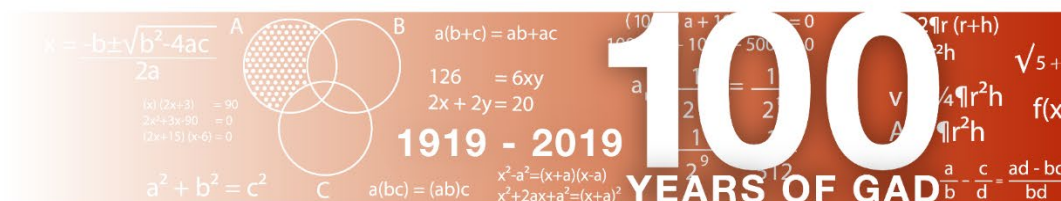# Principal Civil Service Pension Scheme

Trivial commutation

Factors and guidance for classic, classic plus, premium and nuvos

Date: 19 September 2019

Contents

1   Introduction

1.1   This note is addressed to Cabinet Office as scheme manager of the Principal Civil Service Pension Scheme (PCSPS).

1.2   The purpose of the note is to provide Cabinet Office with factors to be used to calculate the lump sum due on the commutation of a small pension ('trivial commutation') and accompanying guidance to demonstrate how these factors should be applied to determine the lump sum.

1.3   This guidance is intended to supersede any advice previously issued, for the purposes of trivial commutation calculations. No advice issued in the past should be used for future cases after this guidance has come into force. In particular, this guidance supersedes the following guidance note:

"Principal Civil Service Pension Scheme: Trivial Commutation. Factors and guidance for classic, classic plus, premium and nuvos members" dated 9 January 2015

1.4   The factors in this note have been updated but the calculation methodology remains unchanged.

Assumptions

1.5   The factors provided in this note have been prepared in light of our advice to Cabinet Office dated 30 October 2018 and its comments following that advice. The factors were implemented with effect from 7 February 2019, in advance of this guidance note.

1.6   Details of the principal assumptions underlying the factor tables in this guidance are set out in Appendix B.

1.7   Appendix A sets out the following unisex factors:

Factor table number	Description
P1TCCL1 **(Table number 502 in consolidated factor spreadsheet)**	Factors to calculate the lump sum due on the commutation of a small pension in respect of classic benefits
P1TCPN1 **(Table number 503 in consolidated factor spreadsheet)**	Factors to calculate the lump sum due on the commutation of a small pension in respect of premium benefits or nuvos benefits

1.8   Section 3 sets out some worked examples of applying the factors.

Scheme rules

1.9   The guidance and examples in this note describe how the trivial commutation factors should be applied and reflect our understanding of the way that administration systems have been programmed to calculate a trivial commutation lump sum. We understand that this paper will be shared with MyCSP and Claybrook.

Cases not covered by this note

1.10   This guidance only relates to benefits in the pre-reform PCSPS schemes – i.e. **classic, classic plus, premium and nuvos.** Benefits in the **alpha** scheme should be treated separately, in accordance with the relevant guidance for that scheme.

1.11   We have not considered factors for the commutation of small child pensions. Such calculations should be referred to GAD.

1.12   We do not anticipate any special cases not covered by this note. However, if any do occur they should be referred to GAD.

Implementation and review

1.13   We understand trivial commutation factors are the responsibility of the Scheme Actuary of the PCSPS. Cabinet Office have confirmed the revised PCSPS factors have been implemented from 7 February 2019, and they are aware of any risks in selecting this implementation date.

1.14   This guidance will apply from the date issued on the cover.

1.15   This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the PCSPS Pension Scheme. Any questions concerning the application of the guidance should, in the first instance, be referred to the Cabinet Office.

1.16   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.

1.17   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.

1.18   Any special cases that are not covered by this guidance should be treated on a case by case basis.

Third Party Reliance

1.19   This guidance has been prepared for the use of the Cabinet Office 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 Cabinet Office and 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.

1.20   Other than Cabinet Office 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.

2   Guidance on application of trivial commutation factors

2.1   Various restrictions on trivial pension commutation are imposed by the pension taxation regime under Finance Act 2004 and contracting out legislation. MyCSP (the scheme administrator) should ensure that the payment of a lump sum in lieu of a small pension is compliant with these as well as with the PCSPS rules, (for example, limitations where benefits include GMP (guaranteed minimum pension)).

2.2   The lump sum payable in respect of commutation of a small pension (in addition to any other lump sum due) should be determined as follows.

General formulae:

$$\textbf{\textit{Trivial Commutation lump sum} = \textit{Total Pension} \times \textit{Factor}}$$

2.3   The Total Pension is the annual rate of pension that would otherwise be put into payment if trivial commutation were not to proceed at the calculation date except for a member below age 55. For a member below age 55 years at the date of trivial commutation (ie calculation date), the Total Pension is the annual rate of pension that is being trivially commuted at the calculation date plus any pension increases accrued up to the calculation date that would ordinarily be withheld until the member had reached 55 years of age. (For the avoidance of doubt the pension increases accrued are those pension increases up to the April prior to the calculation date.)

2.4   The Factor should be interpolated for the member's actual age (complete years and days) – see formula below. The Factor should be taken from table P1TCCL1 for classic members or P1TCPN1 for premium and nuvos members; both are in Appendix A. The factor will depend on status at the date of trivial commutation

2.5   Status refers to either a former contributing 'member and spouse' (column 1) or 'dependant' (column 2) or 'pension credit member' (column 3).

2.6   These tables apply to both male and female members – i.e. the factors are unisex.

2.7   Where a classic plus member is commuting a small pension, a separate calculation should be undertaken for each of their classic and premium benefits and the total lump sum payable is the sum of the results of the two separate calculations.

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*The **Factor** should be interpolated for the member's actual age (complete years and days). The (interpolated) Factor is derived as:*

$$Factor = \frac{(n - Y)}{n} \times F_x + \frac{Y}{n} \times F_{x+1}$$

*Member is age **X** years and **Y** days at date of commutation*

$n = number\ of\ days\ between\ member's\ age\ X\ and\ age\ (X + 1)$

   Normally $n = 365$ *except in leap year in which case* $n = 366$

$F_x = Factor\ at\ age\ X$

$F_{x+1} = Factor\ at\ age\ (X + 1)$

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3   Examples

Worked example 1 – Former contributing member (use member and spouse factor)

Date of commutation: 1 May 2019
Date of birth: 1 April 1954
Age at date of commutation: 65 years and 30 days
Scheme section: Classic

Total Pension =   £600 pa

Factor table to use is P1TCCL1 (consolidated factor spreadsheet table 502) column 1

Formula:

$$Factor = \frac{(n-Y)}{n} \times F_x + \frac{Y}{n} \times F_{x+1}$$

From data above:

n = 366

X = 65

Y = 30

F_x = 18.53

F_{x+1} = 17.99

Factor (interpolated for age at date of commutation)

$= \frac{(366-30)}{366} \times 18.53 + \frac{30}{366} \times 17.99$ = 18.4857 (4 decimal places)

Lump Sum payable = £600 × 18.4857 = £11,091.42

The above example uses n = 366 because a 29th February falls between the individuals' last and next birthdays.

Worked example 2 – Surviving spouse (uses dependant factors)

Date of commutation: 1 May 2019
Date of birth: 17 January 1967
Age at date of commutation: 52 years 104 days
Scheme section: Premium

Total Pension =   £250 pa

Factor Table to use is P1TCPN1 (consolidated factor spreadsheet table 503) column 2

Formula:

$$Factor = \frac{(n-Y)}{n} \times F_x + \frac{Y}{n} \times F_{x+1}$$

From data above:

n = 365

X = 52

Y = 104

F_x = 23.91

F_{x+1} = 23.47

Factor (interpolated for age at date of commutation) =

$\frac{(366-104)}{365}$ × 23.91 + $\frac{104}{365}$ × 23.47 = 23.8501 (4 decimal places)

Lump Sum payable = £250 × 23.8501 = £5,962.53

The above example uses n = 365 because there is not a 29th February between the member's last and next birthdays.

Appendix A: Factor tables

Table 1: P1TCCL1 – classic: trivial commutation unisex factors
(Consolidated factor spreadsheet table number 502)

Age	Amount of lump sum for every £1 of pension		
	Member's and spouse's pension *Column 1*	Dependant's pension *Column 2*	Pension credit member's pension *Column 3*
45		26.73	
46		26.35	
47		25.96	
48		25.56	
49		25.16	
50	25.60	24.74	
51	25.19	24.32	
52	24.77	23.89	
53	24.35	23.45	
54	23.91	23.00	
55	23.47	22.55	22.55
56	23.01	22.08	22.08
57	22.55	21.61	21.61
58	22.08	21.13	21.13
59	21.61	20.64	20.64
60	21.12	20.14	20.14
61	20.62	19.63	19.63
62	20.11	19.11	19.11
63	19.60	18.59	18.59
64	19.07	18.06	18.06
65	18.53	17.52	17.52
66	17.99	16.97	16.97
67	17.44	16.42	16.42
68	16.89	15.86	15.86
69	16.32	15.30	15.30
70	15.71	14.73	14.73
71	15.14	14.15	14.15
72	14.56	13.57	13.57
73	13.98	12.99	12.99
74	13.39	12.41	12.41
75	12.72	11.83	11.83
76	12.13	11.26	11.26
77	11.55	10.68	10.68
78	10.97	10.12	10.12
79	10.40	9.56	9.56
80	9.71	9.00	9.00
81	9.15	8.46	8.46
82	8.59	7.92	7.92
83	8.05	7.40	7.40
84	7.52	6.89	6.89
85	6.89	6.40	6.40
86	6.40	5.93	5.93
87	5.93	5.48	5.48
88	5.49	5.06	5.06
89	5.08	4.67	4.67
90	4.57	4.31	4.31

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Table 2: P1TCPN1 – premium and nuvos : trivial commutation unisex factors
(Consolidated factor spreadsheet table number 503)

Age	Amount of lump sum for every £1 of pension		
	Member's and spouse's pension Column 1	Dependant's pension Column 2	Pension credit member's pension Column 3
45		26.74	
46		26.36	
47		25.97	
48		25.58	
49		25.17	
50	25.44	24.76	
51	25.03	24.34	
52	24.61	23.91	
53	24.18	23.47	
54	23.74	23.03	
55	23.30	22.57	22.57
56	22.85	22.11	22.11
57	22.39	21.64	21.64
58	21.92	21.16	21.16
59	21.44	20.68	20.68
60	20.95	20.18	20.18
61	20.46	19.68	19.68
62	19.96	19.17	19.17
63	19.44	18.65	18.65
64	18.92	18.13	18.13
65	18.38	17.59	17.59
66	17.82	17.03	17.03
67	17.25	16.45	16.45
68	16.67	15.88	15.88
69	16.10	15.30	15.30
70	15.49	14.73	14.73
71	14.91	14.15	14.15
72	14.34	13.57	13.57
73	13.75	12.99	12.99
74	13.17	12.41	12.41
75	12.51	11.83	11.83
76	11.93	11.26	11.26
77	11.35	10.68	10.68
78	10.77	10.12	10.12
79	10.20	9.56	9.56
80	9.54	9.00	9.00
81	8.98	8.46	8.46
82	8.43	7.92	7.92
83	7.90	7.40	7.40
84	7.37	6.89	6.89
85	6.77	6.40	6.40
86	6.28	5.93	5.93
87	5.82	5.48	5.48
88	5.39	5.06	5.06
89	4.98	4.67	4.67
90	4.51	4.31	4.31

Principal Civil Service Pension Scheme

Trivial Commutation Factors
Factors and guidance for classic, classic plus, premium and nuvos

Appendix B: Assumptions underlying actuarially set factors

Financial assumptions

Nominal discount rate	4.856%
Real discount rate (in excess of CPI)	2.00%

Mortality assumptions

Base mortality tables	S2NMA, S2NFA and S2DFA
Base table adjustment – members in normal and ill health	104% of S2NMA (males) and 104% of S2NFA (females)
Base table adjustment – dependants	117% of S2NMA (males) and 100% of S2DFA (females)
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	50%
Age difference between member and partner	Male members assumed to be 3 years older than partner. Female members assumed to be 2 years younger than partner.
Proportions partnered	Classic: 68% (male) and 50% (female) assumed married at retirement Non-classic: 73% (male) and 50% (Female) assumed married or partnered at retirement
Allowance for short-term spouses' pensions (where relevant)	Nil

Appendix C: Limitations

C.1   This note should not be used for any purpose other than those set out in this guidance note.

C.2   The factors contained in this note are subject to regular review. Scheme managers and   administrators need to ensure that they are using the latest factors, as relevant, when processing cases.

C.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.

C.4   This note only covers the actuarial principles around the calculation and application trivial commutation factors. Any legal advice in this area should be sought from an appropriately qualified person or source.

C.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.

C.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 the Cabinet Office and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.