Civil Servants and Others Pension Scheme (CSOPS)

Trivial commutation factors

Factors and guidance for the alpha scheme

Date: 19 September 2019

Contents

1 Introduction

1.1 This note is addressed to Cabinet Office as scheme manager of the Civil Servants and Others Pension Scheme ('CSOPS' or **alpha** scheme). The **alpha** scheme was established by The Public Service (Civil Servants and Others) Pensions Regulations 2014 (SI 2014/1964) (the 'Regulations') and came into force on 1 April 2015.

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 The provisions relating to trivial commutation are set out in Regulation 163 (of the Regulations). Our understanding is that the trivial commutation factors are the responsibility of the scheme manager, after having taken advice from the scheme actuary.

1.4 The factors come into force in advance of this guidance note.

1.5 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:

"Civil Service (and Others) Pension Scheme (CSOPS): Trivial Commutation. Factors and guidance for the alpha scheme" dated 30 June 2015.

Assumptions

1.6 The factors provided in this note have been prepared in accordance with our advice to Cabinet Office dated 30 October 2018 and its comments following that advice.

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

Scheme Rules

1.8 This guidance only relates to benefits in the **alpha** scheme. Benefits in the **classic**, **premium**, **nuvos** or **classic plus** schemes should be treated separately, in accordance with the relevant guidance for those schemes.

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

1.10 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.

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

1.12 Appendix A sets out the unisex factor table (P2TC1) to be used to calculate the lump sum due on the commutation of a small pension for members of the alpha scheme

1.13 Appendix C sets out some important limitations.

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

Implementation and Review

1.15 The revised factors associated with this guidance were implemented in advance of this note. Cabinet Office have confirmed they implemented those revised PCSPS trivial commutation factors with effect from 7 February 2019, and they were aware of any risks in selecting this implementation date.

1.16 This guidance note will apply from the date issued on the cover.

1.17 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.

1.18 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.

1.19 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.

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

Third Party Reliance

1.21 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.

1.22 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

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 Regulations. (For example, limitations where benefits include GMP (guaranteed minimum pension).)

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:

$$\underline{\boldsymbol{Trivial\ Commutation\ lump\ sum\ = Total\ Pension \times Factor}}$$

3. The **Total Pension** is the annual rate of pension that would otherwise be put into payment if trivial commutation were not to proceed.

4. The ***Factor*** should be interpolated for the member's actual age (complete years and days) – see formulae below. The ***Factor*** should be taken from table P2TC1 which is in Appendix A. This table applies to both male and female members. The factor will depend on status at the date of trivial commutation. Status refers to either 'former contributing member' (column 1) or 'dependant' (column 2) or 'pension credit member' (column 3).

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

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

$Member\ is\ age\ \boldsymbol{X}\ years\ and\ \boldsymbol{Y}\ days\ at\ date\ of\ commutation$

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

$Normally\ \boldsymbol{n} = 365\ except\ in\ leap\ year\ in\ which\ case\ \boldsymbol{n} = 366$

$\boldsymbol{F_x} = \boldsymbol{Factor}\ at\ age\ \boldsymbol{X}$

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

3 Worked examples

Worked example 1 – Former contributing member:

Date of commutation:	1 May 2019
Date of birth:	1 April 1954
Age at date of commutation:	65 years and 30 days
Total Pension at date of commutation	£600 pa

Factor table to use is P2TC1 (consolidated factor workbook table 501) column 1

Formula:

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

From data above:

n = 366

X = 65

Y = 30

F_x = 18.38

F_{x+1} = 17.85

Factor (interpolated for age at date of commutation)

$$= \frac{(366-30)}{366} \times 18.38 + \frac{30}{366} \times 17.85 = 18.3366 \text{ (4 decimal places)}$$

Lump Sum payable = £600 × 18.3366 = £11,001.96

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

Worked example 2: Dependant

Date of commutation:	1 May 2019
Age at date of commutation:	52 years 105 days.
Total Pension	£250 pa

Factor Table to use is P2TC1 (consolidated factor workbook table 501) column 2

Formula:

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

From data above:

n = 366

X = 52

Y = 105

F_x = 23.91

F_{x+1} = 23.47

Factor (interpolated for age at date of commutation)

$$= \frac{(366-105)}{366} \times 23.91 + \frac{105}{366} \times 23.47 = 23.784$$

Lump Sum payable = £250 × 23.784
= £5,946.00

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

Appendix A: Factor table

Table 1: P2TC1 – Trivial Commutation Unisex Factors
(Table number 501 in consolidated factor workbook)

Amount of lump sum for every £1 of pension			
Age	**Former contributing member's and dependant's pension**	**Dependant's pension**	**Pension credit member's pension**
	Column 1	*Column 2*	*Column 3*
20		33.96	
21		33.75	
22		33.53	
23		33.30	
24		33.07	
25		32.83	
26		32.59	
27		32.34	
28		32.08	
29		31.82	
30		31.55	
31		31.28	
32		31.00	
33		30.71	
34		30.42	
35		30.12	
36		29.81	
37		29.50	
38		29.18	
39		28.85	
40		28.52	
41		28.18	
42		27.83	
43		27.48	
44		27.11	
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

Table 1: P2TC1 – Trivial Commutation Unisex Factors (continued)
(Consolidated factor workbook table number 501)

Amount of lump sum for every £1 of pension			
Age	**Former contributing member's and dependant's pension**	**Dependant's pension**	**Pension credit member's pension**
	Column 1	*Column 2*	*Column 3*
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	17.85	17.06	17.06
67	17.31	16.51	16.51
68	16.76	15.96	15.96
69	16.17	15.37	15.37
70	15.53	14.77	14.77
71	14.94	14.17	14.17
72	14.34	13.58	13.58
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

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	Member: 104% of S2NMA for males and 104% of S2NFA for females Dependants: 117% of S2NMA for males and 100% of S2DFA for females (as per 2016 valuation)
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	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 guidance should not be used for any purpose other than those set out in this guidance.

C.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.

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 guidance only covers the actuarial principles around the calculation and application of annual allowance scheme pays offset 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 annual allowance scheme pays offset 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 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..