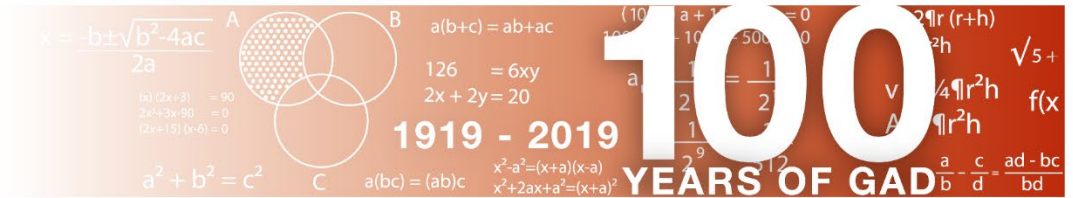




Government
Actuary's
Department



Civil Servants and Others Pension Scheme (CSOPS)

Lifetime allowance (LTA) charges in **alpha** scheme

Factors and guidance for calculation of reduction of benefits where LTA charge payable

Date: 23 August 2019





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1 Introduction

- 1.1 This note is addressed to The Pension Scheme Executive (TPSE) of the 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 this note is to provide TPSE with factors to be used to calculate the reduction that is to be made to a member's benefits when the scheme has paid a member's Lifetime Allowance tax charge, and accompanying guidance to demonstrate how these factors should be applied.
- 1.3 Where a member's Lifetime Allowance tax charge is paid by the scheme the member's benefits will be reduced in accordance with regulation 172 of the Regulations which state that the determination of the amount of the reduction to be applied to a member's benefits where a Lifetime Allowance tax charge is payable is the responsibility of the scheme manager, and should be in accordance with normal actuarial practice.
- 1.4 This note does not attempt to describe the method for determining the amount of any Lifetime Allowance charge. Any references in this note to the calculation of the Lifetime Allowance charge are included solely to help explain how the charge should be converted to a reduction to the member's benefits. They should not be treated as guidance on how to calculate the Lifetime Allowance charge.
- 1.5 The factors provided in this note have been prepared in light of our advice to the Cabinet Office dated 30 October 2018 and its instructions following that advice.
- 1.6 This guidance is intended to supersede any advice previously issued, for the purposes of lifetime allowance debit calculations. No advice or factors issued in the past should be used for cases after this date. In particular, this guidance supersedes:

"Civil Service (and Others) Pension Scheme (CSOPS): Lifetime Allowance (LTA) charges in the alpha scheme: Factors and guidance for calculation of reduction of benefits where LTA charge payable" dated 29 June 2015.
- 1.7 The factors in this note have been updated but the calculation methodology remains unchanged.
- 1.8 Details of the principal assumptions underlying the factor tables in this guidance are set out in Appendix B. Some important limitations are set out in Appendix C.
- 1.9 We understand lifetime allowance reduction factors are the responsibility of the scheme manager. These factors come into force with effect from 1 April 2019.
- 1.10 We do not envisage any special cases not covered by this note. However, if any do occur they should be referred to GAD.



Cases not covered by this note

- 1.11 This note only relates to benefits in the **alpha** pension scheme. Benefits in the **classic, premium, nuvos or classic plus** sections of the PCSPS should be treated separately, in accordance with the relevant guidance for those schemes.
- 1.12 This note relates only to the reduction of benefits where a Lifetime Allowance charge is payable. Separate guidance has been issued relating to the reduction of benefits where an Annual Allowance charge is payable.
- 1.13

Implementation and Review

- 1.14 This guidance will apply from 1 April 2019. This implementation date has been determined by Cabinet Office. This guidance will apply from the date of issue.
- 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 CSOPS 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 factors

2.1 The benefits payable to a member who at retirement incurs a Lifetime Allowance tax charge which is paid by the **alpha** scheme should be reduced to reflect fully the amount of tax payable.

2.2 Our understanding is that the Lifetime Allowance charge (LTAC) is made up of two parts:

- **$LTAC_{LS}$** – the LTAC in respect of benefits in excess of the LTA which will be taken as lump sum
- **$LTAC_{pen}$** – the LTAC in respect of benefits in excess of the LTA which will be taken as pension

The two parts of the LTAC should be considered separately when calculating the appropriate reduction to the member's benefits.

Reduction to member's lump sum

2.3 Where the member has a **$LTAC_{LS}$** , the member's lump sum payable at retirement should be reduced by an amount equal to the **$LTAC_{LS}$** .

Reduction to member's pension

2.4 Where the member has a **$LTAC_{pen}$** , the member's annual pension should be reduced by an amount ('pension offset') calculated as:

$$\text{Pension offset} = LTAC_{pen} / \text{Factor}$$

where:

$LTAC_{pen}$ = the Lifetime Allowance charge paid by the scheme, in respect of benefits that will be paid as pension (see paragraph 2.2).

Factor = the appropriate factor based on the member's gender, age (last birthday) at retirement and health status on retirement. The appropriate factor is taken from:

- Table 1 (P2LTANH) for members retiring in normal health
- Table 2 (P2LTAIH) for members retiring on grounds of ill-health

2.5 The pension payable to a spouse, civil partner or other partner who is eligible to receive a pension on the member's death will not be reduced as a result of the pension offset calculated in paragraph 2.4.



- 2.6 The pension offset calculated in paragraph 2.4 should be increased in line with the Pensions (Increase) Act 1971. The deemed date for the pension offset will be the date of the member's retirement. Note that this may not be the same deemed date as applies to the member's pension.



3 Example Calculations

This section provides an example of the calculations described by this note.

Note that the tax charges in the example are only illustrative and are not intended to reflect the actual tax charge that would apply.

Example 1: Member retiring in ill-health

The following information is needed for this calculation.

A. Member date of birth	23 March 1965
B. Retirement date	15 June 2020
C. Scheme section	alpha
D. Member age (last birthday) at retirement	55 years
E. Normal or ill-health retirement	Ill-health
F. Gender	Female
G. Value of member's benefits at retirement (illustrative)	£1.65m (all accrued in alpha)
H. Lifetime Allowance tax charge (illustrative)	£100,000
J. All excess benefits above LTA are being taken as pension.	

As the excess benefits above the LTA are all being taken as pension, there will be no adjustment made to the lump sum paid to the member.

From paragraph 2.4, the formula for calculating the reduction to the member's annual pension is:

$$\text{Pension offset} = \text{LTAC}_{\text{pen}} / \text{Factor}$$

We have:

$$\text{LTAC}_{\text{pen}} = \text{£100,000 (from H. and J.)}$$

$$\text{Factor} = 22.34 \text{ (taken from Table 2: P2LTAIH in Appendix A)}$$

The pension offset to be implemented is therefore:

$$\text{Pension offset} = \text{£100,000} / 22.34 = \text{£4,476.28 pa.}$$



Appendix A: Factor tables

List of Tables

- **Table 1: P2LTANH (Table 612 in consolidated factors spreadsheet)** - Factors to calculate pension offset for members retiring in normal health where Lifetime Allowance charge payable
- **Table 2: P2LTAIH (Table 613 in consolidated factors spreadsheet)** - Factors to calculate pension offset for members retiring in ill health where Lifetime Allowance charge payable



Table 1: P2LTANH (Table 612 in consolidated factors spreadsheet) - Factors to calculate pension offset for members retiring in normal health where Lifetime Allowance charge payable

Age	Male Factor	Female Factor
55	22.34	22.34
56	21.87	21.87
57	21.40	21.40
58	20.92	20.92
59	20.43	20.43
60	19.93	19.93
61	19.42	19.42
62	18.91	18.91
63	18.39	18.39
64	17.86	17.86
65	17.32	17.32
66	16.78	16.78
67	16.24	16.24
68	15.67	15.67
69	15.07	15.07
70	14.47	14.47
71	13.88	13.88
72	13.29	13.29
73	12.70	12.70
74	12.12	12.12
75	11.54	11.54



Table 2: P2LTAIH (Table 613 in consolidated factors spreadsheet) - Factors to calculate pension offset for members retiring in ill health where Lifetime Allowance charge payable

Age	Male Factor	Female Factor
20	33.85	33.85
21	33.64	33.64
22	33.41	33.41
23	33.18	33.18
24	32.95	32.95
25	32.71	32.71
26	32.46	32.46
27	32.21	32.21
28	31.95	31.95
29	31.69	31.69
30	31.42	31.42
31	31.14	31.14
32	30.86	30.86
33	30.57	30.57
34	30.27	30.27
35	29.97	29.97
36	29.66	29.66
37	29.34	29.34
38	29.02	29.02
39	28.69	28.69
40	28.35	28.35
41	28.01	28.01
42	27.65	27.65
43	27.29	27.29
44	26.93	26.93
45	26.55	26.55
46	26.17	26.17
47	25.78	25.78
48	25.38	25.38
49	24.97	24.97
50	24.55	24.55
51	24.12	24.12
52	23.69	23.69
53	23.25	23.25
54	22.80	22.80
55	22.34	22.34
56	21.87	21.87
57	21.40	21.40
58	20.92	20.92
59	20.43	20.43
60	19.93	19.93
61	19.42	19.42
62	18.91	18.91
63	18.39	18.39
64	17.86	17.86
65	17.32	17.32
66	16.78	16.78
67	16.24	16.24
68	15.67	15.67
69	15.07	15.07
70	14.47	14.47
71	13.88	13.88
72	13.29	13.29
73	12.70	12.70
74	12.12	12.12
75	11.54	11.54



Appendix B: Assumptions underlying factors

Financial assumptions

Nominal discount rate	4.448% pa
CPI	2.00% pa
Real discount rate (in excess of CPI)	2.40% pa

Mortality assumptions

Base mortality tables	S2NMA and S2NFA
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	Males assumed to be 3 years older than partner and females assumed to be 2 years younger than partner
Proportions partnered	Classic: 68% (male) and 50% (female) at retirement. Non-Classic: 73% (male) and 50% (female) at retirement
Allowance for commutation	Nil except for mandatory lump sum cases



Appendix C: Limitations of this guidance

- 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 lifetime allowance debit 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 lifetime allowance debit 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.