



# Government Actuary's Department

## **Principal Civil Service Pension Scheme Northern Ireland**

GMP tests for classic, classic plus, premium and nuvos members

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## 1 Introduction

- 1.1 This note is addressed to the Department of Finance and Personnel (DFP) as scheme manager of the Principal Civil Service Pension Scheme Northern Ireland (PCSPS(NI) or 'scheme').
- 1.2 The purpose of the note is to provide DFP with factors to be used in carrying out the Guaranteed Minimum Pension (GMP) tests required before permitting members to exercise certain options within the PCSPS(NI), and accompanying guidance to demonstrate how these factors should be applied and in which circumstances. These tests are needed to ensure the relevant part of the member's benefits will be sufficient to cover the member's entitlement to a GMP.
- 1.3 This guidance describes the tests required at the retirement of a member under GMP payment age<sup>1</sup> with accrued GMP who wishes to exercise an option to
- > retire before NPA,
  - > commute some of their pension for a cash lump sum or
  - > take partial retirement.
- 1.4 The factors provided in this note have been prepared in light of our advice to DFP dated 3 October 2014 and subsequent correspondence following that advice.
- 1.5 The factors contained in this note, are taken from the report "Principal Civil Service Pension Scheme GMP tests for classic, classic plus, premium and nuvos members (DRAFT)" issued on 9 April 2015 by Sandra Bell and Brian Allen to Cabinet Office in respect of the GB PCSPS.
- 1.6 Factors are the responsibility of the Scheme Actuary under the following rules. This guidance has immediate effect, replacing all previous guidance relating to GMP tests for PCSPS(NI) members.

| Test               | Section                  | Rule     |
|--------------------|--------------------------|----------|
| Early Retirement   | Classic                  | 3.10(a)  |
|                    | Premium and Classic Plus | D.3(5)   |
|                    | Nuvos                    | E.24(6)  |
| Commutation        | Classic                  | 3.54(iv) |
|                    | Premium and Classic Plus | D.8(4)   |
|                    | Nuvos                    | E.16(5)  |
| Partial Retirement | Classic                  | 3.3b(x)  |
|                    | Premium and Classic Plus | D.1A(9)  |
|                    | Nuvos                    | E.24(6)  |

- 1.7 GMP tests on transfer in and allocation should be treated on a case by case basis.
- 1.8 Please contact John Bayliss (020 7211 3454) for further information on this note.

<sup>1</sup> GMP payment age is 60 (females) and 65 (males)



## 2 Instructions

- 2.1 To carry out the GMP test the total amount of the GMP is required, revalued to the calculation date (ie the retirement date). The amount of GMP to be tested needs to allow for the PI factor (ie GMP is divided by PI factor) that was used to uprate notionally the pensionable earnings in question when determining final pensionable earnings for calculating a member's retirement pension.
- 2.2 In order to test whether the option can be exercised the following two values are compared:
- > Pension = the amount of the pre 97 pension about to be brought into payment including any reduction for early payment but before any adjustment for commutation or allocation. This amount should include any transferred in pension but exclude any added years purchased. No PI should have been added to this pension.
  - > Test Value = the GMP increased as in paragraph 2.7 increased by 3% (simple) for each year by which the member's last birthday was before their relevant birthday. This increase is subject to a maximum increase of 20%. For classic members the relevant birthday is that at which the member will reach age 60, for members of premium, classic plus and nuvos that at which the member will reach age 61.
- 2.3 In the case of early retirement, the retirement may proceed only if:
- Pension*  $\geq$  *Test Value*
- 2.4 In the case of partial retirement the minimum percentage of the member's pension that may come into payment is given by:

$$\frac{\text{Test Value}}{\text{Pension}} \times 100\%$$

If this value is greater than 100% then partial retirement may not go ahead.

- 2.5 In cases of commutation the maximum percentage of the member's pension that can be given up in total is given by (this may be further restricted by the rules relating to this option):

$$\frac{\text{Pension} - \text{Test Value}}{\text{Pension}} \times 100\%$$

If the Test Value is greater than the Pension then no option to commute pension can be exercised.

### **Comparison at GMP payment age (or when GMP comes into payment)**

We understand that a test is done when the GMP comes into payment (to ensure the GMP is covered by the member's pension). This test should continue to be performed as normal.



### 3 Example

#### **GMP test on early retirement with commutation**

|   |   |          |
|---|---|----------|
| > | Sex                                       | Female   |
| > | Normal Pension Age (NPA)                  | 60 years |
| > | Section                                   | Classic  |
| > | Annual GMP (revalued to calculation date) | £350     |
| > | Age last birthday at calculation date     | 56       |

The member's last birthday was four years before her 60<sup>th</sup>, so the GMP is increased by 3% four times, ie  $£350 \times [1 + (0.03 \times 4)] = £392.00$ . The reduced pre-commutation pre 97 pension (£500) exceeds this amount so the GMP test is passed and the member can retire early.

The maximum percentage that the member can commute is:

$$\frac{500 - 392}{500} \times 100\% = 21.6\%$$

The member can commute up to 21.6% of her pension and still pass the GMP test (assuming that no pension is allocated to a dependant). However this limit does not override any other restrictions which may limit the pension that can be commuted.



## 4 Limitations of this guidance

- 4.1 This note is intended for the use of DFP and the scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. The information and advice in this note should not be relied upon, or assumed to be appropriate, for any other purpose or by any other person. GAD does not accept any liability to third parties, whether or not GAD has agreed to the disclosure of its advice to the third party.
- 4.2 The factors contained in this note are subject to regular review. Administrators need to ensure that they are using the latest factors, as relevant, when processing cases.
- 4.3 Advice provided by GAD must be taken in context and is intended to be read and used as a whole, not in parts. 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.
- 4.4 This note only covers the actuarial principles around the factors covered in this note. Administrators should satisfy themselves that any added pension complies with all legislative requirements including, but not limited to, tax and contracting-out requirements. Any legal advice in this area should be sought from an appropriately qualified person or source. In no circumstances should this guidance take precedence over the scheme rules. If users of this guidance believe it to contain any inconsistencies with the scheme rules, they should bring this to the attention of DFP and GAD.