



Government Actuary's Department

Principal Civil Service Pension Scheme (Northern Ireland)

Inverse commutation (lump sum to pension)

Factors and guidance for classic section

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Contents

Overview	2
Guidance on application of inverse commutation factors	3
Limitations of this guidance	5
Appendix A – Factor table	0
Appendix B – Worked examples	1



Overview

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)).
2. The purpose of the note is to provide DFP with factors to be used to calculate the extra pension payable to a **classic** member due to the conversion of a lump sum cash payment into an annual pension (known as inverse commutation), and accompanying guidance to demonstrate how these factors should be applied to determine the extra pension payable.
3. This note applies to cases of inverse commutation as described in the following paragraphs of the **classic** section scheme rules:
 - > Unauthorised lump sum payments: 1.20;
 - > Inverse commutation for member: 3.1a; and
 - > Inverse commutation for a pension credit member: 12.3.
4. Inverse commutation factors are the responsibility of the Scheme Actuary of PCSPS (NI) under rule 3.1a. This guidance has immediate effect, replacing all previous guidance relating to inverse commutation for Classic members.
5. The factors provided in this note have been prepared in the light of our advice to DFP dated 3 October 2014 and subsequent correspondence following that advice.
6. The guidance and examples in this note describe how the inverse commutation factors should be applied and reflect our understanding of the way that administration systems have been programmed. We understand that this paper will be shared with the scheme administrator.
7. Appendix A sets out the following factors:

Factor table number	Description
P11C1	Factors to convert a cash lump sum into increased pension (inverse commutation)

8. Appendix B sets out some worked examples of applying the factors.
9. We do not anticipate any special cases not covered by this note. However, if any do occur they should be referred to GAD.
10. Please contact John Bayliss (020 7211 3454) for further information on this draft note.



Guidance on application of inverse commutation factors

11. A member of the **classic** section of the PCSPS (NI) who is about to be paid a pension and lump sum can give up part (or all) of the lump sum in exchange for an increase in their pension.

Scheme administrators should ensure that members using the inverse commutation option meet the eligibility requirements for doing so which are set out in the scheme rules.

12. Members exercising the inverse commutation option can do so in two different ways. The member can:

- (i) give up part (or all) of their lump sum and increase their pension only. The widow or widower's pension remains unchanged; or
- (ii) give up part (or all) of their lump sum and increase both their pension and the pension that would be payable to their dependant.

This provides an increased dependant's pension for the person to whom the member is married on the day before the member's pension benefits become payable. It does not increase any children's pension or adult dependant's pension. The member cannot take this option if they are not married. If the member marries again after making the option, the amount of pension which would then be payable to their new partner in event of the member's death is not increased.

13. The member must give up their lump sum in multiples of £100 unless they are giving up all of it.
14. Members cannot opt to increase only the partner's pension.
15. The increase in the member's pension for each £100 of lump sum given up (or amount surrendered) should be determined as follows.

General formula:

$$\text{Increase in member's pension} = \text{amount surrendered} \times \frac{\text{Factor}}{100}$$

16. The **amount surrendered** is the cash lump sum that is being exchanged for annual pension at the calculation date.



17. The **Factor** is based on the member's actual age (complete years and months, ignoring part months) at calculation date and their gender. The **Factor** is taken from Table P1IC1 in Appendix A and is expressed as an amount of annual pension to be awarded for every £100 of lump sum surrendered. The factor should be chosen from the appropriate column in the table:
- > Where the lump sum is surrendered in exchange for an increase to the member's pension only then columns (1) and (2) should be used.
 - > Where the lump sum is surrendered in exchange for an increase to both the member's pension and dependant's pension, then columns (3) and (4) should be used. When the member dies, half of the increase to the member's pension is payable to the dependant.
18. For cases of inverse commutation under rule 1.20 (unauthorised lump sum payment) and rule 12.3 (conversion of retirement lump sum for a pension credit member), the member can only surrender the lump sum in exchange for an increase to the member's pension. Therefore columns (3) and (4) of Table P1IC1 should not be used for such cases.
19. Members wishing to inverse commute their lump sum below age 50 should be treated on a case by case basis.



Limitations of this guidance

20. This note is intended for the use of the 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.
21. 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.
22. 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.
23. 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.



Appendix A – Factor table

Table 1: P1IC1 – classic : inverse commutation factors

Amount of additional pension for every £100 of lump sum					
Age at retirement in years and complete months		Member Pension		Member and Dependant	
from	to	Male Member	Female Member	Male Member	Female Member
		column (1)	column (2)	column (3)	column (4)
50 years 0 months	50 years 5 months	4.503	4.380	4.292	4.298
50 years 6 months	50 years 11 months	4.538	4.411	4.321	4.327
51 years 0 months	51 years 5 months	4.574	4.442	4.351	4.357
51 years 6 months	51 years 11 months	4.611	4.474	4.382	4.387
52 years 0 months	52 years 5 months	4.649	4.507	4.414	4.418
52 years 6 months	52 years 11 months	4.689	4.541	4.447	4.450
53 years 0 months	53 years 5 months	4.729	4.575	4.480	4.483
53 years 6 months	53 years 11 months	4.770	4.611	4.515	4.517
54 years 0 months	54 years 5 months	4.813	4.647	4.550	4.551
54 years 6 months	54 years 11 months	4.857	4.685	4.587	4.587
55 years 0 months	55 years 5 months	4.902	4.723	4.624	4.623
55 years 6 months	55 years 11 months	4.949	4.763	4.663	4.661
56 years 0 months	56 years 5 months	4.997	4.804	4.702	4.700
56 years 6 months	56 years 11 months	5.047	4.846	4.743	4.740
57 years 0 months	57 years 5 months	5.097	4.889	4.785	4.781
57 years 6 months	57 years 11 months	5.150	4.934	4.829	4.823
58 years 0 months	58 years 5 months	5.205	4.980	4.873	4.866
58 years 6 months	58 years 11 months	5.261	5.027	4.920	4.912
59 years 0 months	59 years 5 months	5.318	5.076	4.967	4.958
59 years 6 months	59 years 11 months	5.378	5.126	5.016	5.006
60 years 0 months	60 years 5 months	5.440	5.178	5.066	5.055
60 years 6 months	60 years 11 months	5.503	5.232	5.118	5.106
61 years 0 months	61 years 5 months	5.568	5.287	5.171	5.158
61 years 6 months	61 years 11 months	5.636	5.345	5.227	5.213
62 years 0 months	62 years 5 months	5.706	5.404	5.283	5.268
62 years 6 months	62 years 11 months	5.778	5.465	5.342	5.327
63 years 0 months	63 years 5 months	5.852	5.528	5.402	5.386
63 years 6 months	63 years 11 months	5.930	5.594	5.465	5.449
64 years 0 months	64 years 5 months	6.009	5.662	5.529	5.513
64 years 6 months	64 years 11 months	6.092	5.733	5.593	5.585
65 years 0 months	65 years 5 months	6.177	5.805	5.659	5.660
65 years 6 months	65 years 11 months	6.266	5.882	5.731	5.732
66 years 0 months	66 years 5 months	6.358	5.960	5.804	5.806
66 years 6 months	66 years 11 months	6.455	6.042	5.881	5.884
67 years 0 months	67 years 5 months	6.554	6.126	5.960	5.964
67 years 6 months	67 years 11 months	6.659	6.215	6.043	6.049
68 years 0 months	68 years 5 months	6.767	6.306	6.129	6.135
68 years 6 months	68 years 11 months	6.881	6.402	6.218	6.226
69 years 0 months	69 years 5 months	6.999	6.501	6.311	6.320
69 years 6 months	69 years 11 months	7.123	6.605	6.412	6.431
70 years 0 months	70 years 5 months	7.251	6.712	6.517	6.546
70 years 6 months	70 years 11 months	7.386	6.824	6.622	6.653
71 years 0 months	71 years 5 months	7.526	6.941	6.731	6.764
71 years 6 months	71 years 11 months	7.673	7.063	6.845	6.881
72 years 0 months	72 years 5 months	7.825	7.190	6.963	7.002
72 years 6 months	72 years 11 months	7.984	7.322	7.086	7.128
73 years 0 months	73 years 5 months	8.150	7.460	7.214	7.260
73 years 6 months	73 years 11 months	8.323	7.604	7.347	7.397
74 years 0 months	74 years 5 months	8.504	7.753	7.485	7.539
74 years 6 months	74 years 11 months	8.690	7.909	7.655	7.713



Appendix B – Worked examples

Worked example – Member surrendering lump sum for increase to own pension only

Sex:	Male
Date of commutation:	10 May 2015
Date of birth:	1 April 1950
Age at date of commutation:	65 years 1 month (years and complete months)
Scheme section:	Classic
Total Pension:	£8,000 pa
Total lump sum:	£24,000 pa

The member opts to surrender £17,000 of lump sum for an increase in own pension only.

Factor to use is from column (1) of table P1IC1 for age 65 years 1 month: ie 6.177

The formula is:

$$\text{Increase in member's pension} = \text{amount surrendered} \times \frac{\text{Factor}}{100}$$

Substituting values into the formula:

$$\text{Increase in member's pension} = £17,000 \times \frac{6.177}{100}$$

Increase in member's pension = £1,050.09 pa

The revised member's pension = £9,050.09 pa

The revised lump sum = £7,000.