Government Actuary's Department

Principal Civil Service Pension Scheme (Northern Ireland)

Trivial commutation

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

Date: 31 March 2015

Author: John Bayliss
James Pepler

Contents

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 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.

3. Trivial commutation factors are the responsibility of the Scheme Actuary of PCSPS (NI) under rule 3.3a of the 1972 section, J.5 of the 2002 section and K.5 of the 2007 section of the scheme Rules. This guidance has immediate effect, replacing all previous guidance relating to trivial commutation factors.

4. This guidance only relates to benefits in the PCSPS (NI) – ie classic, classic plus, premium and nuvos. Benefits in the alpha scheme should be treated separately, in accordance with the relevant guidance for that scheme. We have not considered factors for the commutation of small child pensions, nor commutation below age 55 (on serious ill health grounds or otherwise). Such calculations should be treated on a case by case basis.

5. 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.

6. 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 the scheme administrator.

7. Appendix A sets out the following unisex factors:

Factor table number	Description
P1TCCL1	Factors to calculate the lump sum due on the commutation of a small pension

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, other than those set out in paragraph 4. However, if any do occur they should be referred to GAD.

10. Please contact John Bayliss (020 7211 3454) for further information on this final note.

Guidance on application of trivial commutation factors

11. Various restrictions on trivial pension commutation are imposed by the pension taxation regime under Finance Act 2004 and contracting out legislation. 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 (NI) rules, (for example, limitations where benefits include GMP (guaranteed minimum pension)).

12. 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 formula:

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

13. 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. In the Classic scheme a member receives a lump sum in addition to pension. For the purposes of calculating a trivial commutation lump sum, the factor should be applied only to the annual pension amount (the lump sum is in addition).

14. 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 in Appendix A. This table applies to both male and female members – ie the factors are unisex. The factor will depend on status at the date of trivial commutation. Status refers to either a member (column 1) or dependant (or pension credit member) (column 2).

15. The factors in column 1 take into account the associated dependant's benefit.

16. 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.

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

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

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

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

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

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

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

Limitations of this guidance

17. 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.

18. 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.

19. 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.

20. 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: P1TCCL1 – classic, classic plus, premium and nuvos : trivial commutation unisex factors

Amount of lump sum for every £1 of pension		
Age	Former Contributing member's and dependant's pension	Dependant's Pension
55	21.555	20.386
56	21.198	20.008
57	20.834	19.622
58	20.460	19.227
59	20.078	18.825
60	19.687	18.416
61	19.289	18.001
62	18.881	17.578
63	18.466	17.150
64	18.042	16.715
65	17.596	16.272
66	17.155	15.821
67	16.704	15.362
68	16.244	14.894
69	15.774	14.417
70	15.258	13.932
71	14.773	13.440
72	14.282	12.943
73	13.787	12.442
74	13.291	11.939
75	12.713	11.438
76	12.221	10.940
77	11.734	10.447
78	11.252	9.958
79	10.770	9.468
80	10.174	8.975
81	9.697	8.481
82	9.224	7.987
83	8.756	7.498
84	8.297	7.013
85	7.734	6.538
86	7.312	6.078
87	6.914	5.636
88	6.543	5.213
89	6.202	4.819
90	5.777	4.453

Appendix B – Worked examples

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

Date of commutation: 1 May 2015
Date of birth: 1 April 1950
Age at date of commutation: 65 years and 30 days
Scheme section: Classic
Total Pension = £600 pa

Factor table to use is P1TCCL1 column 1

n = 366

X = 65

Y = 30

F_x = 17.375

F_{x+1} = 16.929

Factor (interpolated for age at date of commutation) = $\frac{(366-30)}{366} \times 17.596 + \frac{30}{366} \times 17.155 =$ 17.560

Lump Sum payable = £600 × 17.560 = £10,536.00

Worked example 2 – Surviving spouse (uses dependant factors)

Date of commutation: 1 May 2016
Date of birth: 17 January 1958
Age at date of commutation: 58 years 105 days
Scheme section: Premium
Total Pension = £250 pa

Factor Table to use is P1TCCL1 column 2

n = 366

X = 58

Y = 105

F_x = 19.227

F_{x+1} = 18.825

Factor (interpolated for age at date of commutation) = $\frac{(366-105)}{366} \times 19.227 + \frac{105}{366} \times 18.825 =$ 19.112

Lump Sum payable = £250 × 19.112 = £4,778.00

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