Government Actuary's Department

Public Service (Civil Servants and Others) Pension Scheme (Northern Ireland) (Alpha Scheme)

Factors for Trivial Commutation

Date:	9 April 2015
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Overview

1. This note is addressed to the Department of Finance and Personnel (DFP) as scheme manager of the **alpha** pension scheme. The **alpha** scheme was established by The Public Service (Civil Servants and Others) Pensions Regulations (Northern Ireland) 2014 ("the Regulations") and will come into force on 1 April 2015.

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. These tables do not apply to members in the **classic**, **classic plus**, **premium** or **nuvos** sections of the Principal Civil Service Pension Scheme (Northern Ireland).

3. Trivial commutation factors are the responsibility of the Scheme Actuary of the alpha scheme under Regulation 163(3). The factors will come into force immediately the alpha scheme is introduced from 1 April 2015.

4. We have not considered factors for the commutation of small child pensions. 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 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 with the scheme administrator.

7. 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.

8. Appendix B sets out some worked examples of applying the factors.

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

Guidance on application of trivial commutation factors

10. 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 alpha pension scheme regulations.

11. 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:

$$\textbf{\textit{Trivial Commutation lump sum}} = \textbf{\textit{Total Pension}} \times \textbf{\textit{Factor}}$$

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

13. 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 commutation. Status refers to either 'former contributing member' (column 1) or 'dependant' (column 2).

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

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

Member is age X years and Y days at date of commutation

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

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

$F_x = Factor\ at\ age\ X$

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

Limitations of this guidance

14. 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.

15. 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.

16. 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.

17. 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: P2TC1 – 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:

Date of commutation: 1 May 2015
Age at date of commutation: 65 years and 30 days
Total Pension = £600 pa

n = 366

X = 65

Y = 30

F_x = 17.596

F_{x+1} = 17.155

Factor (interpolated for age at date of commutation) = $\frac{(366-30)}{366} \times 17.596 + \frac{30}{366} \times 17.155$ = 17.535

Lump Sum payable = £600 × 17.535 = £10,521.00

Worked example 2: Dependant

Date of commutation: 1 May 2016
Age at date of commutation: 58 years 105 days
Total Pension = £250 pa

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