New Judicial Pension Scheme 2015

Early payment of pension

Factors and guidance

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Contents

1   Introduction

1.1   This report is addressed to the Lord Chancellor in his capacity as the Scheme Manager of the New Judicial Pension Scheme 2015 (NJPS 2015). NJPS 2015 came into force on 1st April 2015 and was established under the Judicial Pension Regulations 2015 ("the Regulations").

1.2   The purpose of this report is to provide the Lord Chancellor with specific factors and accompanying guidance to demonstrate how the early payment reduction amounts should be calculated in the NJPS 2015.

1.3   The amount of the early payment reduction (if any) under the Regulations is to be determined by the scheme manager after consultation with the scheme actuary or taking into account tables prepared by the scheme actuary, in accordance with the interpretation of 'early payment reduction' and 'actuarial reduction' (Regulation 2) under the Regulations. This guidance is issued by the Government Actuary's Department (GAD), acting in its capacity as actuarial adviser, in order to provide tables suitable to be used for this purpose.

1.4   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.

Implementation and Review

1.5   The factors contained in this guidance will apply from 1 April 2019. This implementation date has been determined by the Ministry of Justice (MoJ). This guidance will apply from the date issued on the cover.

1.6   This guidance replaces the previous guidance dated 30 April 2015. Factors have been updated but the calculation methodology remains unchanged.

1.7   This report is applicable only to benefits accrued in the NJPS 2015.

1.8   The accompanying guidance and examples are intended to demonstrate how these factors are to be applied to determine the early payment reduction amount for members who have not reached normal pension age or, if applicable, effective pension age under the NJPS 2015.

1.9   Appendix B provides details of the principal assumptions underlying the factor tables in this guidance.

1.10   Section 4 sets out the limitations of the factors and this guidance.

1.11   This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the NJPS 2015. Any questions concerning the application of the guidance should, in the first instance, be referred to MoJ.

1.12   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.

1.13   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.

Third party reliance

1.14   This guidance has been prepared for the use of MoJ 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 MoJ and the 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.

1.15   Other than MoJ 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.

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New Judicial Pension Scheme 2015

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Factors and guidance

2   Calculation of early retirement reduction

2.1   Early payment reduction factors are used to reduce benefits of members who wish to retire before their normal pension age (NPA) or effective pension age (EPA)[1]. NPA in the NJPS 2015 is State Pension Age, subject to a minimum of age 65.

2.2   The tables in Appendix A set out the following factors:

- Table A1 (Consolidated factor spreadsheet table number 401) – Early payment reduction factors in respect of benefits linked to NPA/EPA of 65.

- Table A2 (Consolidated factor spreadsheet table number 402) – Early payment reduction factors in respect of benefits linked to NPA/EPA of 66.

- Table A3 (Consolidated factor spreadsheet table number 403) – Early payment reduction factors in respect of benefits linked to NPA/EPA of 67.

- Table A4 (Consolidated factor spreadsheet table number 404) – Early payment reduction factors in respect of benefits linked to NPA/EPA of 68.

2.3   The age of the member at the effective date of the member's retirement claim (early retirement date) should be calculated in whole years and complete months, part months ignored, as appropriate. This age should then be used to identify the correct factor from the tables.

2.4   Where the member's NPA/EPA is not an integer, the reduction factor should be calculated by linear interpolation between the reduction factors that would have applied if NPA/EPA were the nearest integer age below actual NPA/EPA and the nearest integer age above the actual NPA/EPA. See section 3 of this guidance for an example of this.

2.5   The pension following early retirement (ERP) is calculated as follows:

$$ERP = Pension \times ERF_{NPA/EPA}$$

In this calculation:

'Pension' is the pension at the early retirement date, which was eligible to be paid unreduced from the member's NPA/EPA, including the relevant in-service or deferred revaluation up to the early retirement date.

'ERF$_{NPA/EPA}$' is the early payment reduction factor that applies for the member, calculated in accordance with paragraphs 2.2 to 2.4.

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[1] Members can purchase an effective pension age of one, two or three years below their normal pension age (subject to minimum of age 65).

2.6   The early payment reduction for the member is equal to the member's pension before adjustment for early retirement less the ERP, where Pension and ERP are defined as in paragraph 2.5.

$$Early\ Payment\ Reduction = Pension - ERP$$

2.7   Where a member has different pension ages for different tranches of their pension (e.g. because they have purchased an EPA option on some of their benefits), the early retirement pension (ERP) should be calculated separately for each tranche. There is an example of this in Section 3 of this guidance note.

2.8   The Lord Chancellor has confirmed that State Pension Age for the purpose of calculating early payment of pension should be as set out in legislation in force at the time of retirement. Factors are provided to accommodate the range of pension ages members will have in relation to service on and after 1 April 2015 in accordance with current legislation.

Early retirement before age 55

2.9   This guidance should not be used to calculate the reductions to be applied to members aged below 55 at the date of payment. Such cases should be referred to MOJ, for onward transmission to GAD. Factors for age 54 are included in the table in order to calculate the reduction for a member with an NRA that is not a whole number of years who wishes to retire aged 55.

3   Examples

Example 1: Standard earned pension only

Member age at retirement	62 years and 5 months (complete years and months only, part months ignored)
Member NPA	66
Full retirement standard earned pension at early retirement date	£28,000 p.a.
Dependent earned pension at early retirement date	£10,500 p.a.

Based on the members NPA, the correct table to use is Table A2 NPA/EPA 66. The member's age at his retirement is 62 years and 5 months therefore the correct factor is 0.829. The member's early retirement pension ('ERP') is calculated as follows.

ERP   = £28,000 p.a. x 0.829
        = £23,212 p.a.

Therefore the early payment reduction is as follows.

Early Payment Reduction   = £28,000 p.a. - £23,212 p.a.
                            = £4,788 p.a.

The dependant pension is not reduced and therefore remains £10,500 p.a.

Example 2: EPA option on part of pension

Member age at retirement	62 years and 5 months (rounded to nearest month)
Member NPA	66
Member EPA (for all pension)	65

Standard earned pension (i.e. payable unreduced from NPA) at early retirement date
£18,000 p.a.

Earned pension attributable to EPA 65 at early retirement date £10,000 p.a.
Dependent earned pension at early retirement date £10,500 p.a.

The pension payable unreduced from NPA and from EPA should be reduced separately. The factors to be used are as follows:

- 62 years 5 months for a member with NPA 66, i.e. 0.829 from Table A2 NPA/EPA 66; and

- 62 years 5 months for a member with EPA 65, i.e. 0.875 from Table A1 NPA/EPA 65.

The early retirement pension (ERP) will then be calculated as follows:

ERP_{NPA} = £18,000 p.a. x 0.829

    = £14,922 p.a.

ERP_{EPA} = £10,000 * 0.875

    = £8,750 p.a.

Total ERP = £14,922 p.a. + £8,750 p.a.

    = £23,672 p.a.

Therefore, the early payment reduction is as follows:

Early Payment Reduction = £10,000 + £18,000 - £23,672 = £4,328 p.a.

The dependant pension is not reduced and therefore remains £10,500 p.a.

Example 3: Standard earned pension only, non-integer NPA

Member age at retirement	62 years and 5 months (rounded to the nearest month)
Member NPA	67 years and 7 months
Full retirement standard earned pension at early retirement date	£28,000 p.a.

This member has a non-integer NPA. The factors for integer NPAs immediately above and below the actual NPA are calculated and linear interpolation used to determine the correct factor at NPA. In this case the integers immediately below and above NPA are 67 and 68 respectively.

The factors to be used for the linear interpolation are as follows:

- 62 years 5 months for a member with NPA 67, i.e. 0.784 from Table A3 NPA/EPA 67; and

- 62 years 5 months for a member with NPA 68, i.e. 0.741 from Table A4 NPA/EPA 68.

The factor at NPA (ERF_{NPA}) is then calculated as follows:

$$ERF_{NPA} = \frac{5}{12} \times 0.784 + \frac{7}{12} \times 0.741$$
$$ERF_{NPA} = 0.759$$

The factor at NPA 67 is given a weighting of 5/12 and the NPA 68 factor a weighting of 7/12 because the member's NPA is 67 and 7 months, which is 7/12 of the way to age 68 from age 67.

The member's early retirement pension ('ERP') is then calculated as before.

ERP   = £28,000 p.a. x 0.759
        = £21,252 p.a.

Therefore the early payment reduction is as follows.

Early Payment Reduction   = £28,000 p.a. - £21,252 p.a.
                               = £6,748 p.a.

The dependant pension is not reduced and therefore remains £10,500 p.a.

4   Limitations

4.1   This guidance should not be used for any purpose other than those set out in this guidance.

4.2   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.

4.3   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.

4.4   This guidance only covers the actuarial principles around the calculation and application of early payment of pension factors. Any legal advice in this area should be sought from an appropriately qualified person or source.

4.5   Scheme managers and administrators should satisfy themselves that early payment of pension calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting-out requirements.

4.6   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 MoJ and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.

Appendix A: Factors

Table A1 (Table 401 in consolidated factors spreadsheet)
Early payment reduction factors in respect of benefits linked to NPA/EPA 65

months	Age at early retirement (complete years and months, ignoring part months)											
	54	55	56	57	58	59	60	61	62	63	64	65
0	0.600	0.625	0.652	0.680	0.711	0.744	0.779	0.816	0.857	0.901	0.948	1.000
1	0.602	0.627	0.654	0.683	0.714	0.746	0.782	0.820	0.861	0.905	0.953	
2	0.604	0.629	0.656	0.685	0.716	0.749	0.785	0.823	0.864	0.909	0.957	
3	0.606	0.632	0.659	0.688	0.719	0.752	0.788	0.827	0.868	0.913	0.961	
4	0.608	0.634	0.661	0.690	0.722	0.755	0.791	0.830	0.872	0.917	0.966	
5	0.610	0.636	0.664	0.693	0.724	0.758	0.794	0.833	0.875	0.921	0.970	
6	0.612	0.638	0.666	0.696	0.727	0.761	0.797	0.837	0.879	0.925	0.974	
7	0.614	0.641	0.668	0.698	0.730	0.764	0.801	0.840	0.883	0.929	0.979	
8	0.616	0.643	0.671	0.701	0.733	0.767	0.804	0.843	0.886	0.933	0.983	
9	0.619	0.645	0.673	0.703	0.735	0.770	0.807	0.847	0.890	0.937	0.987	
10	0.621	0.647	0.675	0.706	0.738	0.773	0.810	0.850	0.894	0.941	0.991	
11	0.623	0.649	0.678	0.708	0.741	0.776	0.813	0.854	0.897	0.944	0.996	

Table A2 (Table 402 in consolidated factors spreadsheet)
Early payment reduction factors in respect of benefits linked to NPA/EPA 66

months	Age at early retirement (complete years and months, ignoring part months)												
	54	55	56	57	58	59	60	61	62	63	64	65	66
0	0.569	0.593	0.618	0.645	0.674	0.705	0.738	0.774	0.812	0.853	0.898	0.947	1.000
1	0.571	0.595	0.620	0.647	0.676	0.708	0.741	0.777	0.815	0.857	0.902	0.951	
2	0.573	0.597	0.622	0.650	0.679	0.710	0.744	0.780	0.819	0.861	0.906	0.956	
3	0.575	0.599	0.625	0.652	0.682	0.713	0.747	0.783	0.822	0.865	0.910	0.960	
4	0.577	0.601	0.627	0.655	0.684	0.716	0.750	0.786	0.826	0.868	0.915	0.965	
5	0.579	0.603	0.629	0.657	0.687	0.719	0.753	0.790	0.829	0.872	0.919	0.969	
6	0.581	0.605	0.631	0.659	0.689	0.721	0.756	0.793	0.833	0.876	0.923	0.974	
7	0.583	0.607	0.634	0.662	0.692	0.724	0.759	0.796	0.836	0.880	0.927	0.978	
8	0.585	0.610	0.636	0.664	0.694	0.727	0.762	0.799	0.840	0.883	0.931	0.982	
9	0.587	0.612	0.638	0.667	0.697	0.730	0.765	0.802	0.843	0.887	0.935	0.987	
10	0.589	0.614	0.640	0.669	0.700	0.732	0.768	0.806	0.847	0.891	0.939	0.991	
11	0.591	0.616	0.643	0.671	0.702	0.735	0.771	0.809	0.850	0.895	0.943	0.996	

Table A3 (Table 403 in consolidated factors spreadsheet)
Early payment reduction factors in respect of benefits linked to NPA/EPA 67

| months | Age at early retirement (complete years and months, ignoring part months) | | | | | | | | | | | | | |
	54	55	56	57	58	59	60	61	62	63	64	65	66	67
0	0.539	0.561	0.585	0.611	0.638	0.667	0.698	0.732	0.768	0.807	0.850	0.896	0.945	1.000
1	0.541	0.563	0.587	0.613	0.640	0.670	0.701	0.735	0.771	0.811	0.853	0.900	0.950	
2	0.543	0.565	0.589	0.615	0.643	0.672	0.704	0.738	0.775	0.814	0.857	0.904	0.955	
3	0.544	0.567	0.592	0.617	0.645	0.675	0.707	0.741	0.778	0.818	0.861	0.908	0.959	
4	0.546	0.569	0.594	0.620	0.648	0.678	0.710	0.744	0.781	0.821	0.865	0.912	0.964	
5	0.548	0.571	0.596	0.622	0.650	0.680	0.712	0.747	0.784	0.825	0.869	0.916	0.968	
6	0.550	0.573	0.598	0.624	0.652	0.683	0.715	0.750	0.788	0.828	0.873	0.921	0.973	
7	0.552	0.575	0.600	0.627	0.655	0.685	0.718	0.753	0.791	0.832	0.876	0.925	0.977	
8	0.554	0.577	0.602	0.629	0.657	0.688	0.721	0.756	0.794	0.836	0.880	0.929	0.982	
9	0.556	0.579	0.604	0.631	0.660	0.691	0.724	0.759	0.798	0.839	0.884	0.933	0.986	
10	0.558	0.581	0.606	0.633	0.662	0.693	0.726	0.762	0.801	0.843	0.888	0.937	0.991	
11	0.559	0.583	0.609	0.636	0.665	0.696	0.729	0.765	0.804	0.846	0.892	0.941	0.995	

Table A4 (Table 404 in consolidated factors spreadsheet)
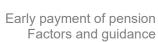**Early payment reduction factors in respect of benefits linked to NPA/EPA 68**

months						Age at early retirement (complete years and months, ignoring part months)									
	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68
0	0.510	0.531	0.553	0.577	0.603	0.630	0.660	0.692	0.726	0.762	0.802	0.846	0.893	0.944	1.000
1	0.511	0.533	0.555	0.579	0.605	0.633	0.663	0.694	0.729	0.766	0.806	0.849	0.897	0.949	
2	0.513	0.535	0.557	0.582	0.608	0.635	0.665	0.697	0.732	0.769	0.810	0.853	0.901	0.953	
3	0.515	0.536	0.559	0.584	0.610	0.638	0.668	0.700	0.735	0.772	0.813	0.857	0.905	0.958	
4	0.517	0.538	0.561	0.586	0.612	0.640	0.670	0.703	0.738	0.776	0.817	0.861	0.910	0.963	
5	0.518	0.540	0.563	0.588	0.614	0.643	0.673	0.706	0.741	0.779	0.820	0.865	0.914	0.967	
6	0.520	0.542	0.565	0.590	0.617	0.645	0.676	0.709	0.744	0.782	0.824	0.869	0.918	0.972	
7	0.522	0.544	0.567	0.592	0.619	0.648	0.678	0.711	0.747	0.786	0.828	0.873	0.922	0.977	
8	0.524	0.546	0.569	0.594	0.621	0.650	0.681	0.714	0.750	0.789	0.831	0.877	0.927	0.981	
9	0.525	0.548	0.571	0.597	0.624	0.653	0.684	0.717	0.753	0.792	0.835	0.881	0.931	0.986	
10	0.527	0.550	0.573	0.599	0.626	0.655	0.686	0.720	0.756	0.796	0.838	0.885	0.935	0.991	
11	0.529	0.551	0.575	0.601	0.628	0.657	0.689	0.723	0.759	0.799	0.842	0.889	0.940	0.995	

Government Actuary's Department	New Judicial Pension Scheme 2015
	Early payment of pension
	Factors and guidance

Appendix B: Principal 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 and adjustments	Member: 92% of S2NMA_L (M) and 80% of S2NFA (F) (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 unisex factors	70%
Allowance for commutation	Nil