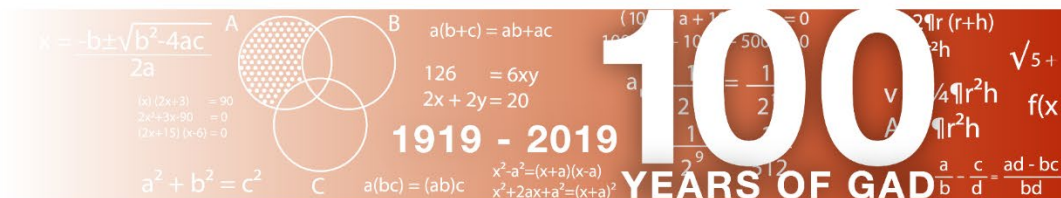




Government
Actuary's
Department



New Judicial Pension Scheme 2015

Early payment reduction buy out option for
members

Factors and Guidance

Date: 1 August 2019





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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), which came into force on 1st April 2015 under the Judicial Pension Regulations 2015 ("the Regulations").
- 1.2 The purpose of this report is to provide the Lord Chancellor with guidance on how early payment reduction buy out costs should be calculated in the NJPS 2015.
- 1.3 In cases of retirement before normal pension age, the cost of buying out the early payment reduction is an amount determined by the scheme manager after consulting the scheme actuary, as stated in regulation 74(5) of the Regulations. This guidance is issued by the Government Actuary's Department (GAD), acting in its capacity as scheme actuary.
- 1.4 This report is applicable to benefits accruing in the NJPS 2015 only and provides advice on calculation of the cost of early retirement payment reduction buy out for eligible members opting to buy out the early payment reduction in the event of retirement before normal pension age.
- 1.5 Pension credit members who opt to buy out their early payment reduction should be referred to GAD.
- 1.6 The early payment reduction buy out option may impact a member in relation to their annual allowance. This should be dealt with in accordance with the latest guidance.
- 1.7 This guidance note has been prepared in light of our advice to MoJ dated 30 October 2018 and its instructions following that advice.
- 1.8 This guidance is intended to supersede any previously issued advice by GAD for the purposes of early payment reduction buy out calculations, carried out from 1 April 2019. No advice or factors issued in the past should be used for such cases after this date. In particular, this guidance supersedes:

"New Judicial Pension Scheme: Early payment reduction buy out option for members" dated 23 November 2015.
- 1.9 The factors used in this note have been updated but the calculation methodology remains unchanged.
- 1.10 This guidance note refers to factors from the latest available NJPS 2015 Early Payment of Pension and the NJPS 2015 Purchase of Additional Pension guidance notes. In all cases, the latest available guidance should always be used.

Implementation and Review

- 1.11 This guidance will apply with immediate effect upon receipt of the respective guidance.



- 1.12 This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the New Judicial Pension Scheme. Any questions concerning the application of the guidance should, in the first instance, be referred to MoJ.
- 1.13 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.
- 1.14 The factors referred to 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

- 1.15 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.
- 1.16 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.



2 Early payment reduction buy out option

2.1 When a member retires before their normal pension age, or if applicable their effective pension age, they can choose at retirement to buy out the early payment reduction that would otherwise apply to the calculation of the annual rate of retirement pension.

2.2 The cost of the buy out at retirement, B_{cost} , is given by the following formula

$$B_{cost} = \frac{\text{early payment reduction} \times APF}{EPF}$$

- Early Payment Reduction – This is the early payment reduction amount by which the rate of pension would be reduced by if the option to buy out the early payment reduction had not been exercised. See paragraph 2.3.
- APF – The added pension factor. See paragraph 2.4.
- EPF – The early payment factor. See paragraph 2.5.

2.3 The early payment reduction will be calculated in accordance with the latest published NJPS 2015 Early Payment of Pension Guidance.

2.4 The added pension factor represents the cost of buying £1 of pension that becomes payable at the member's normal pension age. The added pension factor that applies is that which would apply to an active member choosing to buy added pension at the same age as the member at retirement. The added pension factor should be the Lump Sum factor that applies to member benefits only, taken from the appropriate table depending on the member's normal pension age at retirement. This factor should be taken from the latest published NJPS 2015 Added Pension Guidance.

2.5 The early payment factor is the appropriate factor taken from the latest published NJPS 2015 Early Payment of Pension Guidance. For the purpose of this paragraph, the appropriate early payment factor is determined by the member's normal pension age and not the member's effective pension age, even if the member has exercised an effective pension age option for some or all of their service. The factor is determined using the member's age in years and complete months at retirement.

2.6 A member is only able to purchase (additional) added pension if there is available 'headroom'. This is assessed by comparing the value of any 'extra pension' (EPA options plus any accrued added pension) against the 'overall limit of extra pension' ('headroom limit') as set out in Schedule 1 Part 1 of the Regulations. The Ministry of Justice (MoJ) have confirmed that a member buying out the actuarial reduction on an early retirement pension is not subject to the headroom limit.

2.7 An example calculation is shown in Appendix A.



3 Limitations

- 3.1 This guidance should not be used for any purpose other than those set out in this guidance.
- 3.2 The factors referred to 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.
- 3.3 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.
- 3.4 This guidance only covers the actuarial principles around the calculation and application of early payment reduction buy out factors. Any legal advice in this area should be sought from an appropriately qualified person or source.
- 3.5 Scheme managers and administrators should satisfy themselves that early payment reduction buy out calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting-out requirements.
- 3.6 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: Worked example

Example A1

A.1 Consider a member with details as follows:

Date of Birth:	15/10/1962
Retirement date:	15/10/2020
Age at retirement	58 years and 0 months
NPA:	67 years
Accrued Pension:	£3,500 p.a.

A.2 The accrued pension is the pension in the member's account before any reduction or commutation is applied.

A.3 The Early Payment Reduction is calculated as follows (see the Early Payment of Pension Guidance for full details).

$$\begin{aligned} \text{Early Retirement Pension (ERP)} &= \text{Accrued Pension} \times \text{EPF} \\ \text{ERP} &= £3,500.00 \times 0.638 \\ \text{ERP} &= £2,233 \text{ p. a.} \end{aligned}$$

$$\begin{aligned} \text{Early Payment Reduction} &= \text{Accrued Pension} - \text{ERP} \\ \text{Early Payment Reduction} &= £3,500.00 - £2,233 \\ \text{Early Payment Reduction} &= £1,267 \text{ p. a.} \end{aligned}$$

where

A.4 If the member exercises the option to buy out the early payment reduction, the buy out cost, B_{cost} , is calculated as follows.

$$\begin{aligned} B_{\text{cost}} &= \frac{\text{Early Payment Reduction} \times \text{APF}}{\text{EPF}} \\ B_{\text{cost}} &= \frac{£1,267 \times 11.84}{0.638} \\ B_{\text{cost}} &= £23,512.98 \end{aligned}$$

A.5 The APF and EPF values have been taken from the Purchase of Additional Pension Guidance and the Early Payment of Pension Guidance respectively based on the member's age at retirement and normal pension age. The APF factor is the lump sum factor for member benefits only.