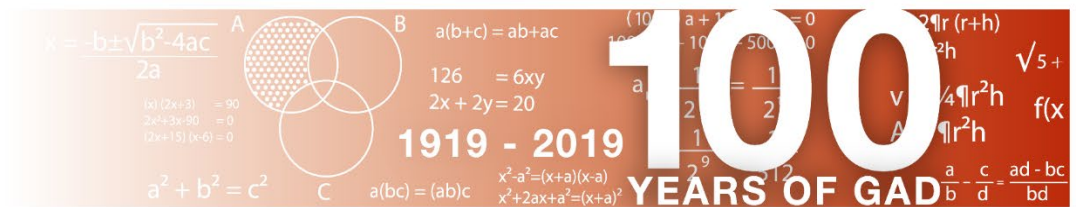




Government
Actuary's
Department



New Judicial Pension Scheme 2015

Lifetime Allowance Charge
pension debit

Date: 30 September 2019





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1. Introduction

- 1.1 The Lord Chancellor, as the responsible authority under Schedule 2 paragraph 2 of the Public Service Pension Act 2013 ('the responsible authority') is required under The Judicial Pension Regulations 2015 ('the 2015 Scheme Regulations') (SI 2015/182), to issue actuarial guidance on the Lifetime Allowance pension debit that will be applied to a member's benefits (regulation 157 of the 2015 Scheme Regulations) if the member and scheme are jointly and severally liable to pay a Lifetime Allowance Charge but no payment has been made under regulation 156 of the 2015 Scheme Regulations.
- 1.2 This note relates to Lifetime Allowance pension debits that should be applied to a member's pension in accordance with Regulation 157 of the 2015 Scheme Regulations.
- 1.3 In order to assess whether the member is required to pay a Lifetime Allowance charge, the combined capital value of the member's accrued rights contained within the New Judicial Pension Scheme 2015 and any other relevant sources, should be calculated in accordance with the requirements of the Finance Act 2004, associated regulations, and guidance from HM Revenue & Customs (HMRC)
- 1.4 The purpose of this note is to provide the Ministry of Justice (MOJ) with the factors and process to be used when calculating a reduction to benefits due to a Lifetime Allowance Charge.
- 1.5 This guidance is intended to supersede any factors and advice previously issued, for the purposes of lifetime allowance pension debit calculations. No advice or factors issued in the past should be used for cases after this date. In particular, this guidance supersedes:

"New Judicial Pension Scheme 2015: Lifetime Allowance Charge pension debit" dated 19 May 2015.
- 1.6 The factors in this note have been updated but the calculation methodology remains unchanged.
- 1.7 The remainder of this introduction contains:
 - Details of the implementation and future review of this guidance
 - Statements about the use of this note and third party reliance
- 1.8 In the remainder of this note:
 - Sections 2 and 3 describe the issues and set out the formulae



- Section 4 contains examples
- Section 5 sets out the factors to be used
- Appendix A sets out some important limitations

Implementation and Review

- 1.9 The responsible authority is required to consult the scheme actuary before issuing actuarial guidance under the 2015 Scheme Regulations.
- 1.10 As part of this consultation the responsible authority has asked GAD, as scheme actuary, to recommend actuarial guidance in respect of the regulations detailed below. This document forms GAD's recommendation for the actuarial guidance required by these regulations.
- 1.11 This guidance does not consider the calculation of the capital value of the member's accrued rights, and associated Lifetime Allowance charge, if applicable. This guidance only applies to calculate the pension debit to the member's pension where a Lifetime Allowance charge calculated in line with paragraph 1.8 is paid by the Scheme in accordance with Regulation 157 of the Regulations. It does not consider payment of a Lifetime Allowance charge under Regulation 156, a reduction to benefits other than pension benefits under Regulation 157, or the order in which member's choose to crystalize their benefits.
- 1.12 If required, further guidance could be provided to advise on situations in which a Lifetime Allowance charge may be due, and to calculate the size of the Lifetime Allowance charge in such circumstances.
- 1.13 The factors contained in this guidance will apply from 1 April 2019. This implementation date has been determined by Ministry of Justice. This guidance will apply from the date of issue.
- 1.14 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.
- 1.15 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.
- 1.16 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

- 1.17 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.
- 1.18 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. Lifetime Allowance Charge – pension debit

- 2.1 Under regulation 157 of the 2015 Scheme Regulations benefits are reduced in respect of any Lifetime Allowance charges to be recovered.
- 2.2 There may be a consequential adjustment ('Lifetime Allowance debit') made to the member's pension entitlement from the scheme in respect of charges met by the Scheme

Calculations

- 2.3 The Lifetime Allowance pension debit ('LTAPD') to apply to the member's pension entitlement at retirement is calculated as:

$$\text{LTAPD} = \text{LTATC} \div \text{RTF}$$

LTATC	Lifetime Allowance tax charge payable by the scheme
RTF	Factor in Table A

- 2.4 The debit should be revalued from the implementation date up to the April immediately before the date of retirement in line with the Pensions Increase Act (currently reflecting changes in CPI).
- 2.5 The debit should be increased by a full years' Pension Increase in the year immediately following retirement (this may not be the same increase that applies to the member's pension).

Application of Lifetime Allowance debits

- 2.6 Lifetime Allowance debits will be applied to member pension only.
- 2.7 The Lifetime Allowance debit will not be applied to the benefits payable to a future surviving spouse, civil partner, nominated partner or children on the member's death, including any lump sum on death before retirement.

Interactions between annual allowance debits and Lifetime Allowance

- 2.8 We understand that when calculating Lifetime Allowance charges the pension tested should be that which would come into payment after allowing for the impact of any Annual Allowance Scheme Pays offsets. Any Lifetime Allowance pension debit should therefore be applied to the member pension after deduction for any annual allowance debit.



3. Example calculation

Example 1: Member retiring at age 65 on ordinary grounds, with Lifetime Allowance charge

The following information is needed for this calculation:

A. Member date of birth	1 January 1955
B. Retirement date	1 January 2020
C. Member age	65
D. Gender	Male
E. Lifetime allowance tax charge	£30,000

Under 2.3, the Lifetime Allowance pension debit is calculated as:

$$\text{LTAPD} = \text{LTATC} \div \text{RTF}$$

We have:

LTATC = £30,000 (from E.)

RTF = 18.275 (Table A).

Substituting these values into the formula we get:

$$\begin{aligned}\text{LTAPD} &= £30,000 \div 18.275 \\ &= £1,641.59 \text{ pa}\end{aligned}$$

The current pension will be reduced by **£1,641.59** per annum.



Appendix A – Table of factors

Table A – (Table 602 in the consolidated spreadsheet) Factors for calculating Lifetime Allowance debit

Age last birthday at relevant date	Unisex factor
55	23.219
56	22.763
57	22.299
58	21.827
59	21.346
60	20.856
61	20.356
62	19.848
63	19.332
64	18.808
65	18.275
66	17.735
67	17.188
68	16.635
69	16.077
70	15.514
71	14.946
72	14.375
73	13.803
74	13.232
75	12.663



Appendix B – Assumptions underlying factors

Financial assumptions

Nominal discount rate	4.448% pa
Real discount rate (in excess of CPI)	2.40% pa

Mortality assumptions

Base mortality tables and adjustments	Males: 92% of S2NMA_L Females: 80% of S2NFA
Future mortality improvements	Based on ONS principal UK population projections 2016
Year of Use	2020

Other assumptions

Proportion of male members for unisex factors	70%
Proportion partnered	90% of men and 80% of women are assumed to be married or have a qualifying partner at retirement
Age difference between member and partner	Males assumed 3 years older than their partners and female members assumed 2 years younger than their partners
Allowance for commutation	Nil



Appendix C – Limitations

- C.1 This guidance should not be used for any purpose other than those set out in this guidance.
- C.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.
- C.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.
- C.4 This guidance only covers the actuarial principles around the calculation and application of Lifetime Allowance pension debit factors. Any legal advice in this area should be sought from an appropriately qualified person or source.
- C.5 Scheme managers and administrators should satisfy themselves that Lifetime Allowance pension debit calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting-out requirements.
- C.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.