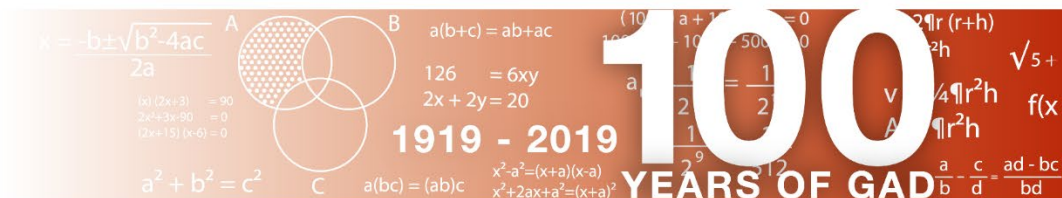




Government
Actuary's
Department



Health and Social Care Pension Scheme 2015

Compulsory early retirement Factors and guidance

Date: 25 October 2019





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1 Introduction

- 1.1 This Note is provided for the use of the HSC as administrator of the Health and Social Care Pension Scheme 2015 ('HSCPS 2015'). It sets out how to determine the contribution to be paid by employers/benefits available to members on allocation of redundancy monies for enhanced benefits on compulsory early retirement.
- 1.2 This document relates to the Health and Social Care Pension Scheme Regulations (Northern Ireland) SR 2015/120 regulations 34 and 35 which cover employer contributions and regulation 32 which covers member payments in relation to where a pension becomes payable to a member under regulations 81 or 82 (early retirement on termination of employment by employing authority). The 2015 Transitional Regulations¹ (32-36) cover the provisions for transitional members (i.e. members with entitlement to benefit from both the HSCPS and HSCPS 2015).
- 1.3 The factors provided in this Note have been prepared in light of our advice to the Department of Health Northern Ireland ('DoH NI') dated 30 October 2018 and its instructions to us following that advice.
- 1.4 No advice or factors issued in the past for the HSCPS 2015 should be used for compulsory early retirement cases for members of the HSCPS 2015.
- 1.5 Where members have benefits in both the HSCPS and the HSCPS 2015, please see section 3.
- 1.6 The assumptions underlying the factors in Appendix B are covered in Appendix A. Some important limitations are set out in Appendix D.

Implementation

- 1.7 The factors contained in this are now in force and the implementation date has been determined by HSC.
- 1.8 This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the Health and Social Care Pension Scheme 2015. Any questions concerning the application of the guidance should, in the first instance, be referred to DoH NI.
- 1.9 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.



- 1.10 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.
- 1.11 The remainder of this Note covers the factor tables, guidance on their use and a number of worked examples.
- 1.12 In any circumstances where the application of this guidance is not clear further input should be sought from GAD.

Third party reliance

- 1.13 This guidance has been prepared for the use of DoH NI and HSC as the scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on DoH NI 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.
- 1.14 Other than DoH NI and HSC as 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 Compulsory early retirement

- 2.1 The contributions payable by employing authorities under regulation 34 or 35 where a pension becomes payable to a member under regulations 81 or 82 (early retirement on termination of employment by employing authority), are determined by applying the appropriate factor to the accrued benefit entitlement(s) at the date of retirement using the formula below and factors in Appendix B. Contributions required from employing authorities provide for unreduced benefits to be payable in these circumstances.
- 2.2 Members opting for the additional contribution option in accordance with regulation 32 where benefits become payable under regulations 81 or 82, may (subject to their contract of employment) secure no or a lesser reduction to accrued benefits where the full cost is not met by an employer payment under regulations 34 or 35. The top-up pension is payable in addition to the actuarially reduced pension determined in accordance with regulation 43. It should be determined by applying the appropriate factor to the allocated portion of the redundancy compensation lump sum at the date of retirement using the formula below and factors in Appendix B. Payments made under the additional contribution option must be at least £500 (or the cost of fully removing the actuarial reduction if less), of an amount divisible by £10 and may not exceed the cost of buying out the actuarial reduction in full.

Employer costs on compulsory early retirement

- 2.3 The cost of members receiving an unreduced pension on compulsory early retirement pension is determined as below. For this purpose, NPA generally has the same meaning as in the Public Service Pensions Act (Northern Ireland) (PSPA) 2014 10(1) at the date of retirement, i.e. is equal to a member's State Pension Age, minimum age 65, as specified in legislation at the date of the member's retirement.

$\text{The cost of unreduced pension} = \text{Main scheme pension} \times (1 - \text{ERF1}) \times \text{Factor CER1}$
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- 2.4 ERF1 above is the early retirement factor applicable to the member depending on period before NPA (in years and months) and is detailed in the latest version of the GAD guidance 'HSCPS 2015 Voluntary early and late retirement in normal health: Factors and guidance'. Factor CER1 is given in Appendix B and is the factor applicable to the member's age at retirement in complete years and months.
- 2.5 The basic pension used in the calculation should include any transferred-in service but exclude any Additional Pension. Additional Pension is not covered by the compulsory early retirement regulations and so is subject to an early retirement reduction if paid before NPA. Please see the latest version of the GAD guidance document 'HSCPS 2015 Voluntary Early and Late retirements in normal health: Factors and guidance' for more information.
- 2.6 Factors should be applied to pensions before any allowance for commutation.
- 2.7 The calculation above is for a single contribution payment. If it is agreed that payments may be spread please refer to GAD for a spreading factor. This is not an option automatically available in the regulations.



Member benefits on sacrificing redundancy compensation lump sums on compulsory early retirement

- 2.8 Members may be able to sacrifice some or all of their redundancy compensation lump sum to secure lower reductions to their pension on compulsory early retirement up to a maximum of the cost calculated in 2.3. If members wish to sacrifice less than this amount the top-up pension available to them is determined as below.

- 2.9 Top-up pension over normal early retirement pension

= Lump sum to be sacrificed / Factor CER1

There is no additional dependant pension to the top-pension

- 2.10 Once in payment, this pension is to be treated as main scheme pension. Commutation options are available with limits based in aggregate scheme benefits.

Members with Early Retirement Reduction Buy-Out agreements

- 2.11 In some cases, a modified NPA should be used to determine the factor applicable to some or all benefits. For a member with an Early Retirement Reduction Buy-Out (ERRBO) agreement, the factor(s) applied to benefits accrued during the term of the agreement should be determined based on the member's Reduced Retirement Age(s) (RRA) as determined at the date of retirement.
- 2.12 For the purposes of this document RRA is determined based on Normal Pension Age as defined in the PSPA 2013 i.e. SPA as specified in legislation at the date of the member's retirement less the period of reduction secured by the agreement. This may be different to RRA as determined for the purposes of setting the cost of the agreement (which is linked to NPA as set out in stated Government policy).
- 2.13 For the purpose of determining the applicable ERF1 factor from the table in Appendix C, the member's RRA for each Buy-out period should be used separately in place of the member's NPA. Please see the document 'HSCPS 2015 Voluntary Early and Late retirements in normal health: Factors and guidance' for more information.
- 2.14 Worked examples are given in Section 4.



3 Members with benefits in both the HSCPS 2015 and the HSCPS

- 3.1 For transitional members, i.e. those with benefit entitlement from both the HSCPS 2015 and HSCPS, on redundancy before age 55 only benefits from the 1995 section of the HSCPS are available.
- 3.2 No further accrual in the HSCPS 2015 is permitted if 1995 section of the HSCPS benefits become payable in these circumstances.
- 3.3 Where members have benefits in both schemes, if employers are to meet the costs of unreduced benefits on compulsory early retirement, costs are determined as the sum of the costs calculated separately for both schemes as covered by this guidance and the equivalent guidance for the HSCPS.
- 3.4 Where the member's terms of employment mean that they may allocate redundancy monies to secure lower reductions to their benefits under the additional contribution option, the order in which any redundancy compensation lump sums are applied will affect benefits. Any available compensation lump sum should be used first to secure lower (or no) reductions in benefits from the HSCPS, before being allocated to secure lower reductions in benefits from the HSCPS 2015, as under regulation 35 of the Transitional Regulations.



4 Examples

4.1 This section sets out worked examples to help with the use of the factors. The examples covered are as follows:

- A.** Compulsory early retirement of a member
- B.** Compulsory early retirement of a member with Additional Pension



A. Compulsory Early Retirement of a member

Individual Data

NPA	67
Date of birth	6 December 1961
Date of early retirement	6 December 2024
Age at date of early retirement	63 years and 0 months
Pension at retirement	£3,000.00 pa
Time before NPA at retirement	4 years and 0 months
ERF1	0.808
CER1	19.620

i. Contract requires employer to pay costs

Cost to employer of CER	= Pension at retirement x (1 - ERF1) x CER1
	= (£3,000.00) x (1 - 0.808) x 19.620
	= £11,301.12

Pension available to member at retirement = £3,000.00 pa

Cost to Employer = £11,301.12

ii. Contract allows employee to pay costs

If instead member has the additional contribution option and wishes to sacrifice compensation lump sum, they can sacrifice a maximum of £11,301.12 for an unreduced pension of £3,000.00 pa.

If instead they wish to sacrifice £5,000.00 (minimum £500.00 and in amounts divisible by £10.00)

Top-up pension available =	= Compensation lump sum / CER1
	= £5,000.00 / 19.620
	= £254.84 pa

Early retirement pension	= Pension at retirement x ERF1
	= £3,000 x 0.808
	= £2,424.00 pa

Pension available to member at retirement = £2,424.00 + £254.84 = £2,678.84 pa

Cost to Employee = £5,000.00



B. Compulsory Early Retirement of a member with Additional Pension

Individual Data

NPA	67
Date of birth	6 December 1961
Date of early retirement	6 December 2024
Age at date of early retirement	63 years and 0 months
Pension at retirement	£3,000.00 pa
Additional Pension	£600.00
Time before NPA at retirement	4 years and 0 months
ERF1	0.808
CER1	19.620

i. Contract requires employer to pay costs

$$\begin{aligned}
 \text{Cost to employer of CER} &= \text{Pension at retirement} \times (1 - \text{ERF1}) \times \text{CER1} \\
 &= (£3,000.00) \times (1 - 0.808) \times 19.620 \\
 &= £11,301.12
 \end{aligned}$$

$$\begin{aligned}
 \text{Additional Pension (subject to ERF1)} &= £600.00 \times 0.808 \\
 &= £484.80 \text{ pa}
 \end{aligned}$$

$$\begin{aligned}
 \text{Pension available to member at retirement} &= £3,000.00 + £484.80 = £3,484.80 \text{ pa} \\
 \text{Cost to Employer} &= £11,301.12
 \end{aligned}$$

ii. Contract allows employee to pay costs

If instead member has the additional contribution option and wishes to sacrifice compensation lump sum, they can sacrifice a maximum of £11,301.12 for an unreduced pension of £3,000.00.

If instead they wish to sacrifice £5,000.00 (minimum £500.00 and in amounts divisible by £10.00)

$$\begin{aligned}
 \text{Top-up pension available} &= \text{Compensation lump sum} / \text{CER1} \\
 &= £5,000.00 / 19.620 \\
 &= £254.84
 \end{aligned}$$

$$\begin{aligned}
 \text{Early retirement pension} &= \text{Pension at retirement} \times \text{ERF1} \\
 &= £3,000.00 \times 0.808 \\
 &= £2,424.00 \text{ pa}
 \end{aligned}$$

$$\begin{aligned}
 \text{Pension available to member at retirement} &= £2,424.00 + £254.84 + £484.80 \\
 &= £3,163.64 \text{ pa}
 \end{aligned}$$

$$\text{Cost to Employee} = £5,000.00$$



Appendix A: Assumptions underlying factors

Financial assumptions

Nominal discount rate	4.448% pa
CPI	2.00% pa
Real discount rate (in excess of CPI)	3.00% pa

Mortality assumptions

Base mortality tables	Males: 83% of S2NMA Female: 85% of S2NFA (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	1/3 male members (reducing to zero for factors used to commute trivial dependant pension)
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Age difference between member and partner	Male member 3 years older than partner and female 3 years younger than partner.
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Family statistics	Age and sex dependent rates of proportions married or partnered at death. Sample rates for active members:
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Age	Males	Females
50	76%	54%
60	76%	54%
70	74%	46%
80	61%	23%
90	34%	7%

Allowance for commutation	Nil except for mandatory lump sum cases.
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Appendix B: Factors to calculate employer costs on compulsory early retirement

TABLE CER1 (Table 813 in consolidated factors spreadsheet)

HSCPS 2015: ACTUARIAL FACTORS

COST FOR A MEMBER LEAVING ON COMPULSORY EARLY RETIREMENT

FACTORS APPLICABLE TO MAIN SCHEME PENSION

Age: complete months	0	1	2	3	4	5	6	7	8	9	10	11
PENSION FACTORS												
Complete Years												
55	23.456	23.418	23.381	23.343	23.306	23.268	23.230	23.193	23.155	23.118	23.080	23.042
56	23.005	22.966	22.928	22.890	22.852	22.814	22.776	22.738	22.700	22.661	22.623	22.585
57	22.547	22.508	22.469	22.431	22.392	22.353	22.314	22.276	22.237	22.198	22.160	22.121
58	22.082	22.042	22.003	21.963	21.924	21.885	21.845	21.806	21.766	21.727	21.687	21.648
59	21.608	21.568	21.528	21.488	21.447	21.407	21.367	21.327	21.287	21.247	21.206	21.166
60	21.126	21.085	21.044	21.003	20.962	20.921	20.880	20.839	20.798	20.757	20.716	20.675
61	20.633	20.591	20.550	20.508	20.466	20.424	20.382	20.340	20.299	20.257	20.215	20.173
62	20.131	20.088	20.046	20.003	19.961	19.918	19.876	19.833	19.791	19.748	19.706	19.663
63	19.620	19.577	19.534	19.490	19.447	19.404	19.361	19.317	19.274	19.231	19.187	19.144
64	19.101	19.057	19.013	18.969	18.925	18.881	18.837	18.793	18.749	18.705	18.661	18.617
65	18.572	18.528	18.483	18.438	18.393	18.348	18.304	18.259	18.214	18.169	18.125	18.080
66	18.035	17.989	17.944	17.898	17.853	17.808	17.762	17.717	17.671	17.626	17.581	17.535
67	17.489	17.443	17.397	17.351	17.305	17.259	17.213	17.167	17.121	17.075	17.029	16.983
68	16.960											

Notes:

- (1) Amount payable is determined by multiplying the member's total pension entitlement at date of retirement by (1-ERF1) and then the factor shown above for the member's age at date of early retirement.
- (2) Pension amounts should be multiplied by factor above before any lump sum commutation option is exercised.
- (3) These factors should not be applied to any Additional Pension.



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 compulsory early retirement 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 compulsory early retirement 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 HSC and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.