



# Government Actuary's Department

## **Health and Social Care Pension Scheme 2015**

### **Compulsory early retirement**

### **Factors and guidance**

Version 1.0

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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 The factors provided in this Note have been prepared in light of our advice to the Department of Health, Social Services and Public Safety ('DHSSPS') dated 27 March 2015 and its instructions to us following that advice. No advice or factors issued in the past for the Health and Social Care Pension Scheme ('HSCPS') should be used for compulsory early retirement cases for members of the HSCPS 2015.
- 1.3 Where members have benefits in both the HSCPS and the HSCPS 2015 please see Section 3.
- 1.4 The effective date for this guidance is 1 April 2015. The version number for this guidance is 1.0.
- 1.5 This document relates to SR 2015/120 Regulations 33 and 34 which cover employer contributions in relation to where a pension becomes payable to a member under regulations 80 or 81 (early retirement on termination of employment by employing authority). The 2015 Transitional Regulations<sup>1</sup> (32-34) cover the provisions for transitional members (i.e. members with entitlement to benefit from both the HSCPS and HSCPS 2015).
- 1.6 The assumptions underlying the factors in Appendix B are covered in Appendix A.

### Implementation

- 1.7 As agreed the factors contained in this Note should be used with effect from 1 April 2015.
- 1.8 The remainder of this Note covers the factor tables, guidance on their use and a number of worked examples.
- 1.9 Factors provided in this Note are subject to review following any review of the SCAPE basis (due every 4 years). The factors should also be reconsidered following each actuarial valuation where mortality and other recent experience is reviewed or if other credible and material information comes to light. There may also be other reasons (such as changes in Government stated policy around SPAs) which will trigger a review of factors.
- 1.10 In line with best practice, GAD should review a number of sample cases to ensure factors are used as intended.

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<sup>1</sup> The Health and Social Care Pension Scheme (Transitional and Consequential Provisions) Regulations (Northern Ireland) 2015 (SR 2015/122).



- 1.11 In any circumstances where the application of this guidance is not clear further input should be sought from GAD.



## 2 Compulsory early retirement

- 2.1 The contributions payable by employing authorities under Regulations 33 or 34 where a pension becomes payable to a member under Regulations 80 or 81 (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.

### Employer costs on compulsory early retirement

- 2.2 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 Schedule 13 of SR 2015/120, i.e. is equal to a member's State Pension Age as specified in legislation at the date of the member's retirement.

The cost of unreduced pension = Main scheme pension x (1 - ERF1) x Factor CER1
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- 2.3 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 guidance 'HSCPS 2015 Voluntary early and late retirement in normal health: Factors and guidance'. These factors have been copied into Appendix C for ease of reference. Factor CER1 is given in Appendix B and is the factor applicable to the member's age at retirement in complete years and months.
- 2.4 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 document 'HSCPS 2015 Voluntary Early and Late retirements in normal health: Factors and guidance' for more information.
- 2.5 Factors should be applied to pensions before any allowance for commutation.
- 2.6 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.

### Members with Early Retirement Reduction Buy-Out agreements

- 2.7 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.
- 2.8 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).



- 2.9 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.
- 2.10 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 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.



## **4 Examples**

4.1 This section sets out a 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 pa

Time before NPA at retirement	4 years and 0 months
ERF1	0.807
CER1	18.666

$$\begin{aligned}\text{Cost to employer of CER} &= \text{Pension at retirement} \times (1 - \text{ERF1}) \times \text{CER1} \\ &= (£3,000) \times (1 - 0.807) \times 18.666 \\ &= £10,807.61\end{aligned}$$

**Pension available to member at retirement = £3,000 pa**

**Cost to Employer = £10,808**

**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 pa
Additional Pension	£600

Time before NPA at retirement	4 years and 0 months
ERF1	0.807
CER1	18.666

$$\begin{aligned}\text{Cost to employer of CER} &= \text{Pension at retirement} \times (1 - \text{ERF1}) \times \text{CER1} \\ &= (£3,000) \times (1 - 0.807) \times 18.666 \\ &= £10,807.61\end{aligned}$$

$$\begin{aligned}\text{Additional Pension (subject to ERF1)} &= £600 \times 0.807 \\ &= £484.20 \text{ pa}\end{aligned}$$

**Pension available to member at retirement = 3,000.00 + 484.20 = £3,484.20 pa**

**Cost to Employer = £10,808**



## Appendix A: Assumptions underlying factors

### Financial assumptions

Nominal discount rate	5.06% pa
Real discount rate (in excess of CPI)	3.00% pa

### Mortality assumptions

Base mortality tables	S1NMA and S1NFA
Base table adjustment	Adjustments applied so that 20% fewer deaths at each age are assumed for male members and 15% fewer deaths at each age are assumed for female members than implied by the standard tables. (As per 2012 valuation.)
Future mortality improvement	Based on ONS principal UK population projections 2012
Year of Use	2016

### Other assumptions

Proportion of male members for unisex factors	33.3%
Allowance for commutation	Nil



## Appendix B: Factors to calculate employer costs on compulsory early retirement

TABLE CER1

**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	21.762	21.733	21.703	21.673	21.644	21.614	21.584	21.555	21.525	21.495	21.466	21.436
56	21.406	21.375	21.345	21.315	21.284	21.254	21.223	21.193	21.163	21.132	21.102	21.072
57	21.041	21.010	20.978	20.947	20.916	20.885	20.854	20.823	20.792	20.761	20.729	20.698
58	20.667	20.635	20.603	20.571	20.539	20.507	20.476	20.444	20.412	20.380	20.348	20.316
59	20.284	20.252	20.219	20.186	20.154	20.121	20.089	20.056	20.024	19.991	19.959	19.926
60	19.893	19.860	19.827	19.794	19.760	19.727	19.694	19.660	19.627	19.594	19.561	19.527
61	19.494	19.459	19.425	19.391	19.357	19.323	19.289	19.255	19.220	19.186	19.152	19.118
62	19.084	19.049	19.014	18.979	18.944	18.910	18.875	18.840	18.805	18.770	18.736	18.701
63	18.666	18.630	18.595	18.559	18.524	18.488	18.453	18.417	18.382	18.346	18.311	18.275
64	18.239	18.203	18.167	18.130	18.094	18.058	18.021	17.985	17.949	17.912	17.876	17.840
65	17.803	17.766	17.729	17.692	17.654	17.617	17.580	17.543	17.506	17.469	17.431	17.394
66	17.357	17.319	17.281	17.243	17.205	17.167	17.129	17.091	17.053	17.015	16.977	16.939
67	16.900	16.861	16.823	16.784	16.745	16.706	16.667	16.628	16.590	16.551	16.512	16.473

**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: Early retirement factors

TABLE ERF1

**HSCPS 2015: ACTUARIAL FACTORS**  
**BENEFITS PAYABLE TO THE MEMBER ON VOLUNTARY EARLY RETIREMENT (WITH ACTUARIAL REDUCTION)**  
**FACTORS APPLICABLE TO MAIN SCHEME PENSION AND ADDITIONAL PENSION**

Time to NPA: Months	0	1	2	3	4	5	6	7	8	9	10	11
PENSION FACTORS												
Years												
0	1.000	0.995	0.991	0.986	0.982	0.977	0.973	0.968	0.964	0.959	0.955	0.950
1	0.946	0.942	0.937	0.933	0.929	0.925	0.921	0.917	0.912	0.908	0.904	0.900
2	0.896	0.892	0.888	0.884	0.880	0.876	0.873	0.869	0.865	0.861	0.857	0.853
3	0.849	0.846	0.842	0.839	0.835	0.832	0.828	0.824	0.821	0.817	0.814	0.810
4	0.807	0.803	0.800	0.797	0.793	0.790	0.787	0.783	0.780	0.777	0.773	0.770
5	0.767	0.764	0.761	0.757	0.754	0.751	0.748	0.745	0.742	0.739	0.736	0.733
6	0.730	0.727	0.724	0.721	0.718	0.715	0.713	0.710	0.707	0.704	0.701	0.698
7	0.695	0.693	0.690	0.687	0.685	0.682	0.679	0.676	0.674	0.671	0.668	0.666
8	0.663	0.661	0.658	0.656	0.653	0.651	0.648	0.646	0.643	0.641	0.638	0.636
9	0.633	0.631	0.628	0.626	0.624	0.621	0.619	0.617	0.614	0.612	0.610	0.607
10	0.605	0.603	0.600	0.598	0.596	0.594	0.592	0.589	0.587	0.585	0.583	0.581
11	0.578	0.576	0.574	0.572	0.570	0.568	0.566	0.564	0.562	0.560	0.558	0.556
12	0.554	0.552	0.550	0.548	0.546	0.544	0.542	0.540	0.538	0.536	0.534	0.532

**Notes:**

- (1) NPA should be substituted for RRA where appropriate
- (2) AP should be pro-rated to take account of unpaid contributions at date of retirement. Any paid up AP entitlement should include PI to DOR
- (3) The appropriate factor is based on the period between DOR and NPA (or RRA) in years and months, rounded up to the next higher month.