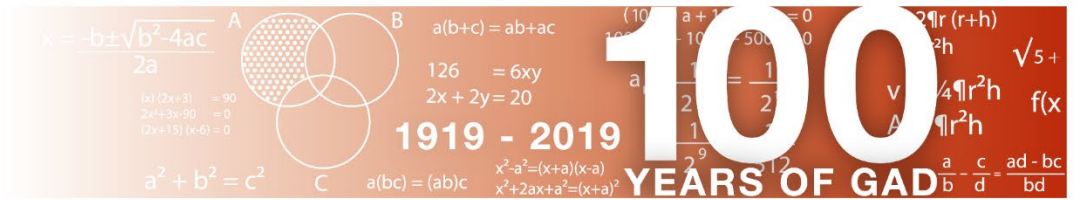




Government
Actuary's
Department



NHS Pension Scheme (Scotland) 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 Scottish Public Pensions Agency ('SPPA') as administrator of the NHS Pension Scheme (Scotland) 2015 ("NHSPSS 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 SPPA dated 30 October 2018 and its instructions to us following that advice.
- 1.3 No advice or factors issued for the National Health Service Pension Scheme for Scotland ('NHSPS Scotland') should be used for compulsory early retirement cases for members of the NHSPSS 2015. In particular this guidance supersedes:

- "National Health Service Pension Scheme (Scotland) 2015: Compulsory early retirement - Factors and guidance" dated 27 March 2015

We do not expect that factors issued in the past should be used for future cases from 29 October 2018.

- 1.4 Where members have benefits in both the NHSPS Scotland and the NHSPSS 2015 please see section 3.
- 1.5 This document relates to SSI 2015/94 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 (32-34) cover the provisions for transitional members (i.e. members with entitlement to benefit from both the NHSPS Scotland and NHSPSS 2015).
- 1.6 The assumptions underlying the factors in Appendix B are covered in Appendix A. Some important limitations are set out in Appendix C.

Implementation

- 1.7 The factors contained in this Note should be used with effect from 29 October 2018.
- 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 NHS Pension Scheme (Scotland) 2015. Any questions concerning the application of the guidance should, in the first instance, be referred to SPPA.
- 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 SPPA and as scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on SPPA'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 SPPA 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 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 SSI 2015/94, 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.

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 latest version of the GAD guidance 'NHSPSS 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 latest version of the GAD guidance document 'NHSPSS 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 latest version of the GAD guidance document 'NHSPSS 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 NHSPSS 2015 and the NHSSS

- 3.1 For transitional members, i.e. those with benefit entitlement from both the NHSPSS 2015 and NHSPS Scotland, on redundancy before age 55 only benefits from the 1995 section of the NHSSS are available.
- 3.2 No further accrual in the NHSPSS 2015 is permitted if 1995 section NHSPS Scotland 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 each scheme as covered by this guidance and the equivalent guidance for the NHSPS Scotland.



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	0.803
CER1	19.034

$$\begin{aligned}\text{Cost to employer of CER} &= \text{Pension at retirement} \times (1 - \text{ERF1}) \times \text{CER1} \\ &= (£3,000) \times (1 - 0.803) \times 19.034 \\ &= £11,249.09\end{aligned}$$

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

Cost to Employer = £11,249

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	0.803
CER1	19.034

$$\begin{aligned}\text{Cost to employer of CER} &= \text{Pension at retirement} \times (1 - \text{ERF1}) \times \text{CER1} \\ &= (£3,000) \times (1 - 0.803) \times 19.034 \\ &= £11,249.09\end{aligned}$$

$$\begin{aligned}\text{Additional Pension (subject to ERF1)} &= £600 \times 0.803 \\ &= £481.80 \text{ pa}\end{aligned}$$

Pension available to member at retirement = 3,000.00 + 481.80 = £3,481.80 pa

Cost to Employer = £11,249



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: 95.5% of S2NMA Female: 97.5% 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.																		
Age difference between member and partner	Male member 3 years older than partner and female 3 years younger than partner.																		
Proportions partnered	Age and sex dependent rates of proportions married or partnered at death. Sample rates for active members																		
	<table><tr><th>Age</th><th>Males</th><th>Females</th></tr><tr><td>50</td><td>0.76</td><td>0.5</td></tr><tr><td>60</td><td>0.76</td><td>0.5</td></tr><tr><td>70</td><td>0.74</td><td>0.4</td></tr><tr><td>80</td><td>0.61</td><td>0.2</td></tr><tr><td>90</td><td>0.34</td><td>0.0</td></tr></table>	Age	Males	Females	50	0.76	0.5	60	0.76	0.5	70	0.74	0.4	80	0.61	0.2	90	0.34	0.0
Age	Males	Females																	
50	0.76	0.5																	
60	0.76	0.5																	
70	0.74	0.4																	
80	0.61	0.2																	
90	0.34	0.0																	
Allowance for commutation	Nil except for mandatory lump sum cases.																		



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

TABLE CER1 (Table 813 in consolidated factors spreadsheet)

NHSPS Scotland 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	22.927	22.889	22.851	22.813	22.774	22.736	22.698	22.660	22.621	22.583	22.545	22.506
56	22.468	22.429	22.390	22.352	22.313	22.274	22.235	22.197	22.158	22.119	22.080	22.041
57	22.002	21.963	21.924	21.884	21.845	21.806	21.766	21.727	21.688	21.648	21.609	21.570
58	21.530	21.490	21.450	21.410	21.370	21.330	21.290	21.250	21.210	21.170	21.130	21.090
59	21.049	21.008	20.968	20.927	20.886	20.845	20.805	20.764	20.723	20.682	20.641	20.601
60	20.559	20.518	20.476	20.435	20.393	20.352	20.310	20.269	20.227	20.185	20.144	20.102
61	20.060	20.018	19.975	19.933	19.891	19.848	19.806	19.763	19.721	19.679	19.636	19.594
62	19.551	19.508	19.465	19.422	19.379	19.336	19.293	19.250	19.207	19.164	19.120	19.077
63	19.034	18.990	18.946	18.903	18.859	18.815	18.771	18.727	18.683	18.640	18.596	18.552
64	18.508	18.463	18.419	18.374	18.330	18.285	18.241	18.196	18.152	18.107	18.063	18.019
65	17.974	17.928	17.883	17.838	17.793	17.747	17.702	17.657	17.612	17.566	17.521	17.476
66	17.430	17.384	17.339	17.293	17.247	17.201	17.155	17.109	17.063	17.018	16.972	16.926
67	16.880	16.833	16.787	16.740	16.694	16.648	16.601	16.555	16.508	16.462	16.415	16.369
68	16.346											

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