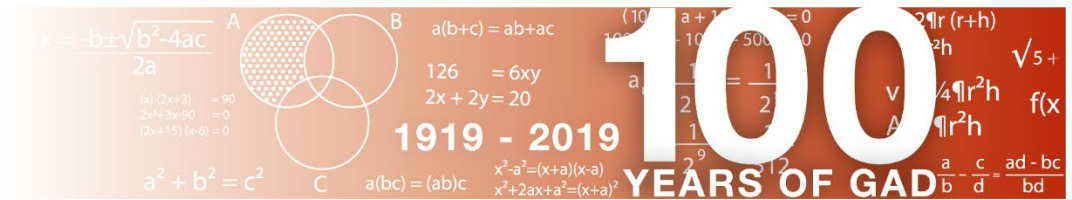




Government  
Actuary's  
Department



## National Health Service Pension Scheme (Scotland)

**Partial Retirement for members aged at least 55**

**Factors and guidance**

Date: 25 October 2019





## Contents

<b>1</b>	<b>Introduction</b>	<b>3</b>
<b>2</b>	<b>Partial Retirement</b>	<b>5</b>
<b>3</b>	<b>Examples</b>	<b>9</b>
	<b>Appendix A: Limitations</b>	<b>13</b>



## 1 Introduction

- 1.1 This Note is addressed to the Scottish Public Pensions Agency (SPPA) as administrator of the National Health Service Pension Scheme (Scotland) ("NHSPSS") and sets out our advice in relation to the calculation of benefits due to members on request for partial retirement.
- 1.2 This document relates to regulations 2.D.5 – 2.D.7 and 2.K.12 and 3.D.5, 3.D.6 and 3.K.10 of SSI 2013/174, the National Health Service Superannuation Scheme (2008 Section) (Scotland) Regulations ("the Regulations").
- 1.3 This document provides guidance for members entitled only to benefits from the NHSPSS. A separate document covers benefits for member entitled only to benefits from the NHS Pension Scheme (Scotland) 2015 ("NHSPSS 2015") and for those with benefits in both the NHSPSS and NHSPSS 2015.
- 1.4 This document should not be used for members with benefits only in the NHSPSS 2015 or for members with benefits in both the NHSPSS and NHSPSS 2015.
- 1.5 No advice or factors issued in the past for should be used for partial retirement cases for members of the NHSPSS. In particular this guidance supersedes:
  - "National Health Service Superannuation Scheme for Scotland: Partial Retirement for members aged at least 55 - Factors and guidance" dated 27 March 2015.
- 1.6 This guidance is effective from the date issued on the cover.

### Limitations

- 1.7 The partial retirement regulations require Scottish Ministers to seek advice from the scheme actuary in some circumstances. This guidance covers most cases where actuarial advice is required, however the circumstances outlined in paragraphs 1.8 and 1.9 are not covered. If experience suggests guidance is appropriate for such contingencies these will be covered in future versions of the guidance.
- 1.8 Under Regulations 2.D.5(7) and 3.D.5(6) Scottish Ministers must take advice from the scheme actuary regarding:
  - a) any benefits to be paid after the exercise of the first option (but before the exercise of the second option);
  - b) any benefits to be paid after the exercise of the second option; and
  - c) the final payment.

This note does not cover cases which may arise under a or b above (for example following a member's death, in the event of ill health or if a transfer value in relation to undrawn rights is requested). Calculation of the final payment (made on complete retirement from the Scheme) is covered in section 2.



1.9 This note does not cover:

- Calculation of mandatory lump sums (MLS) for members subject to a 1995 section pension debit. (Regulations 3.K.10(13) and (14) apply.)
- Determination of benefits generally for members subject to the modifications in Part 4 of the Regulations.
- Determination of level of pension to be reinstated following abatement.

### **Implementation and review**

- 1.10 This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the National Health Service Pension Scheme Scotland. Any questions concerning the application of the guidance should, in the first instance, be referred to SPPA.
- 1.11 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.
- 1.12 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**

- 1.13 This guidance has been prepared for the use of SPPA 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, 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 Partial Retirement

### General information

- 2.1 Partial retirement allows members of the 2008 section of the NHSPSS to take part of their pension benefits on or after age 55 whilst remaining in employment and accruing further benefits, subject to continuing to contribute to the Scheme<sup>1</sup>. A member may request partial retirement on 2 separate occasions only, after which the remaining benefits must be taken in their entirety.

### Conditions to exercise partial retirement option

- 2.2 A member may only request to exercise the partial retirement option if they satisfy the conditions under Regulation 2.D.5(1),(2) or 3.D.5(1) of the Regulations, and in accordance with Regulation 2.D.5(3) and (4) or 3.D.5(2) and (3).
- 2.3 To request partial retirement a member's pensionable pay must reduce by at least 10% i.e. to become no more than 90% of their pensionable pay in the 12 months ending on the "option date" (the date partial benefits become payable).
- 2.4 A corresponding test must be applied at the second option date if applicable (with a requirement of at least a 10% reduction in the level of pensionable pay in the 12 months ending on the second option date). Where a member has multiple employments (including concurrent officer and practitioner employments) the reduction in pay test is applied in aggregate across all employments. For practitioner members the regulations refer to 'level of engagement' rather than pensionable pay. The term pensionable pay is used throughout this document to refer to relative levels of remuneration pre and post option dates.

### Restrictions of amount of benefits

- 2.5 In effect the member may access benefits equivalent to a proportion of the member's reckonable service (for officers) or revalued pensionable earnings (for practitioners) at the option date ("specified percentage"). For members with both officer and practitioner benefits the proportion to be drawn must be specified and then applied equally to both officer and practitioner entitlement (e.g. 30% of officer service, 30% of total revalued practitioner earnings) before any modification to benefits is determined in accordance with Part 4 of the Regulations (i.e. practitioner flexibilities).
- 2.6 The proportion of reckonable service/revalued pensionable earnings accessible is defined in the Regulations, and is subject to the restrictions set out in 2.7 to 2.9 below.
- 2.7 The specified percentage must be sufficient so that the new pension created is not less than:
- The pension determined based on 20% of the member's total entitlement at the end of the option day, excluding any additional pension and before commutation of any pension, and

---

<sup>1</sup> The drawdown option relates only to benefits attributable to current pensionable service. Any unlinked benefits attributable to prior service are not included for partial retirement purposes.



- 0.05% of the member's available lifetime allowance on the option day, where the pension considered includes any increase due to late retirement and is before any commutation of pension.
- 2.8 The retained deferred/accrued pension, excluding additional pension, must not be less than:
- The pension based on 20% of the member's total entitlement at the end of the "option day".
- 2.9 In addition, for officers the retained pensionable service must be at least one year, or equivalent part-time proportion for part-time members.
- 2.10 A member's election for partial retirement must state whether any additional pension (AP) entitlement is to become payable at the option date. If payment is requested all AP becomes payable from the option date with early or late payment adjustment as normal (including pro-rata adjustment for regular premium contracts which have not been completed).

#### **Calculation of amount of benefit**

- 2.11 The pension available at each option date is determined as follows. The calculations shown apply similarly at first and second option dates. The same principle applies for the final payment calculation with "specified percentage" meaning the remaining service/earnings still to be accessed at final retirement date.

#### ***Member aged less than 65 at option date:***

Officers: Pension = [specified percentage x pensionable service x reckonable pay x reduction factor] ÷ 60

Practitioners: Pension = 0.0187 x specified percentage x total practitioner revalued earnings x reduction factor

#### ***Member aged at least 65 at option date:***

Officers: Pension = [specified percentage x pensionable service x reckonable pay x increase factor] ÷ 60

Practitioners: Pension = 0.0187 x specified percentage x total practitioner revalued earnings x increase factor

#### ***Where***

*Specified percentage* has the same meaning as in paragraph 2.5.

*Reckonable pay and total practitioner revalued earnings* have the normal meanings

*Reduction and increase factors* are those applicable to 2008 section pension (generally<sup>2</sup> tables ERF2 and LRF1 of NHSPSS: Voluntary Early and Late retirements in normal health). At age 65 the factor is 1. Note any late retirement addition should only be applied to benefits in respect of service before age 65.

---

<sup>2</sup> Other factor tables may be relevant for members with AP and MLS



- 2.12 AP should be added (with the appropriate adjustment) if the member opts for payment from the option date.
- 2.13 Dependant pensions and commutation options should be determined in the normal way based on the proportion of benefits taken. Note there are provisions for mandatory lump sums (MLS) for members joining the 2008 section on transfer from the 1995 section. Paragraphs 2.18– 2.19 refer.

### **Record keeping**

- 2.14 On exercise of the partial retirement option, a new pensioner record is set up in respect of that part of the member's scheme pension taken at the option date, while the active (or deferred<sup>3</sup>) member record is amended to reflect the fact that part of the member's service has been taken as a pension benefit. This should be recorded as a service debit on the member's deferred/active record (officer records) or a reduction in uprated earnings (practitioner records) (or both for mixed benefits). The service/earnings debit should be deemed to apply from the beginning of a member's service. This convention will determine the extent to which a late retirement addition should be applied where the option date is after a member's normal pension age.
- 2.15 A partial retirement member therefore has 2 records:
- A pensioner record in respect of the service taken on partial retirement, and
  - A deferred or active member record in respect of the service retained in the scheme. Further service would accrue as usual for active members taking partial retirement and continuing to pay contributions.

### **Abatement**

- 2.16 Abatement provisions apply where a member's pensionable pay (over all employments, including any entered into after the option date) increase to over 90% of pensionable pay in the 12 months ending with the option date. In this case the partial retirement pension in payment is abated to zero.
- 2.17 On subsequent reduction in the member's pensionable pay to less than 90% of their pensionable pay in the 12 months preceding the option day, then the partial retirement pension is reinstated in full. Please refer such cases to GAD for determination of the amount of pension to be paid on reinstatement.

### **Mandatory lump sums**

- 2.18 Regulations 2.K.12 and 3.K.10 cover mandatory lump sums applicable on drawdown for a 2008 section member who elected to transfer to that section from the 1995 section. The mandatory lump sum should be determined as set out below. The calculations shown apply similarly at first and second option dates. The final payment will also require calculation of a MLS and the same principle as below applies for that calculation, with "specified percentage" meaning the remaining service/earnings still to be accessed at final retirement date.

---

<sup>3</sup> If member contributions cease other than due to reaching service limits



***Member aged less than 60 at option date:***

Officers:  $MLS = [3 \times \text{specified service} \times \text{reckonable pay} \times \text{reduction factor}] \div 80$

Practitioners:  $MLS = 3 \times 0.014 \times \text{specified uprated earnings} \times \text{reduction factor}$

***Member aged at least 60 at option date:***

Officers:  $MLS = [3 \times \text{specified service} \times \text{reckonable pay}] \div 80$

Practitioners:  $MLS = 3 \times 0.014 \times \text{specified uprated earnings}$

In each case MLS should be rounded down to whole pounds, divisible by 12.

***Where***

*Specified service* is “specified percentage” (see paragraph 2.5) of total pensionable service in the 1995 section including any service in respect of a transfer into that section and excluding any additional pension.

*Reckonable pay* has the normal meaning

*Specified uprated earnings* are the “specified percentage” (see paragraph 2.5) of total practitioner revalued earnings in the 1995 section, including any earnings in respect of a transfer in to that section and excluding any additional pension.

*Reduction factor* is that applicable to retirement lump sums in the 1995 section (table ERF7<sup>4</sup> of NHSPSS : Voluntary Early and Late retirements in normal health).

2.19 Where a member has a MLS pension debit, please refer to GAD.

---

<sup>4</sup> On retirement before age 60 the member's pension should be adjusted in relation to the MLS by application of the appropriate factor from table ERF11. See the related GAD guidance for full details.





### 3 Examples

#### A. Retirement of a 2008 section officer – 2 option dates and final payment

##### Individual Data

Date of birth	1 June 1956
Option date 1	4 June 2019
AP to be taken (post 2011 contract – fully paid up)	Yes
AP at option date	£750 pa
Pensionable pay in 12 months to option date 1	£35,000
Pensionable pay after option date 1	£30,000 (86% of pre-option pay)
Reckonable pay at option date 1	£34,000
Specified percentage	25%
Pensionable service	20 years
MLS	None
Age at option date 1	63 years and 0 months
ERF2	0.901

##### Option date 1

Scheme pension payable at option date 1 = [specified percentage x pensionable service x reckonable pay x reduction factor] ÷ 60

$$= [0.25 \times 20 \times £34,000 \times 0.901] \div 60 = £2,552.83 \text{ pa (before commutation)}$$

$$\text{AP from option date} = £750 \times 0.901 = £675.75\text{pa}$$

$$\text{Total pension at option date} = £2,552.83 + £675.75 = \mathbf{£3,228.58 \text{ pa}} \text{ (before commutation)}$$

Check at least 0.05% of lifetime allowance (using 2019/20 LTA):

$$\text{Minimum is } 0.05/100 \times 1.055\text{m} = £527.50 \text{ pa}$$

Remaining pensionable service for active record is  $(1 - 25\%) \times 20 = \mathbf{15 \text{ years}}$

(Check at least 20% of total service of 20 years, and minimum of 1 year)

##### Option date 2

Option date 2	4 June 2020
Pensionable pay in 12 months to option date 2	£30,000
Pensionable pay after option date 2	£25,000 (83% of pre-option pay)
Reckonable pay at option date 2	£34,500
Specified percentage	25%
Pensionable service	16 years (15 years after first draw down plus an additional 1 years accrual)
MLS	None
Age at option date 2	64 years and 0 months
ERF2	0.950



Scheme pension payable at option date 2

=  $[0.25 \times 16 \times £34,500 \times 0.950] \div 60 = \textbf{£2,185 pa}$  (before commutation)

No AP

Satisfies minimum of 0.05% of lifetime allowance (using 2019/20 LTA) = £527.50 pa

Remaining pensionable service for active record is  $(1 - 25\%) \times 16 = \textbf{12 years}$   
(Check at least 20% of service of 16 years (after first draw down), and minimum of 1 year)

### Final payment

Retirement date	4 June 2021
Reckonable pay at retirement date	£34,950
Pensionable service	13 years (12 years after both drawdowns plus 1 year additional accrual)
MLS	None
Age at retirement date	65 years and 0 months

Scheme pension payable at retirement date

=  $[13 \times £34,950] \div 60 = \textbf{£7,573 pa}$  (before commutation)



## B. Retirement of a 2008 section officer – 1 option date with MLS

### Individual Data

Date of birth	1 February 1956
Option date 1	4 February 2019
Pensionable pay in 12 months to option date 1	£35,000
Pensionable pay after option date 1	£30,000 (86% of pre-option pay)
Reckonable pay at option date 1	£34,000
Specified percentage	25%
Pensionable service	20 years

### MLS information:

Relevant service in 1995 section	12 years
----------------------------------	----------

Age at option date 1	63 years and 0 months
ERF2	0.901
ERF7	1.00
ERF11	0.006

### Option date 1

Scheme pension payable at option date 1 = [specified percentage x pensionable service x reckonable pay x reduction factor] ÷ 60

$$= [0.25 \times 20 \times £34,000 \times 0.901] \div 60 = \mathbf{£2,552.83pa}$$

(before adjustment for MLS and before commutation)

Check at least 0.05% of lifetime allowance (using 2019/20 LTA):  
Minimum is  $0.05/100 \times 1.055m = £527.50$  pa (before commutation)

Remaining pensionable service for active record is  $(1 - 25\%) \times 20 = \mathbf{15 \text{ years}}$

(Check at least 20% of total service of 20 years, and minimum of 1 year)

Remaining relevant service in the 1995 section is  $(1 - 25\%) \times 12 = \mathbf{9 \text{ years}}$

Mandatory lump sum =  $[3 \times \text{specified service} \times \text{reckonable pay}] \div 80$

$$= [3 \times 0.25 \times 12 \times £34,000] \div 80 = \mathbf{£3,825.00}$$

Scheme pension payable (after adjustment for MLS) =  $£2,552.83 + £3,825.00 \times 0.006 = \mathbf{£2,575.78 \text{ pa}}$   
(before commutation)

### Final payment

Retirement date	4 June 2021
Reckonable pay at retirement date	£36,250
Pensionable service	22 years (after draw down)
Relevant service in the 1995 section	9 years (after draw down)
Age at retirement date	65 years and 0 months



Scheme pension payable at retirement date (before commutation)

=  $[22 \times £36,250] \div 60 = \textbf{£13,292 pa}$  (no adjustment for MLS as over age 60)

Mandatory lump sum =  $[3 \times \text{specified service} \times \text{reckonable pay} \times \text{reduction factor}] \div 80$

=  $[3 \times 9 \times £36,250] \div 80 = \textbf{£12,234}$



## Appendix A: Limitations

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