



Factors for calculating trivial commutation

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1 Introduction

- 1.1 This note is provided for the UK Atomic Energy Authority (UKAEA or the Authority) in its role as manager of the UK Atomic Energy Authority Pension Schemes ("the UKAEA Schemes").
- 1.2 The purpose of the note is to provide the Authority with factors to be used to calculate the lump sum due on the commutation of a small pension ('trivial commutation'), and accompanying guidance to demonstrate how these factors should be applied to determine the lump sum.
- 1.3 These factors apply to members who are entitled to commute their pension under Rule 4.29 of the Schemes' rules.
- 1.4 We understand that the setting of trivial commutation factors is the responsibility of the UKAEA.
- 1.5 The factors provided in this note have been prepared in light of the advice on assumptions in our letter dated 30 October 2018.
- 1.6 Details of the assumptions underlying the factor tables in this guidance are set out in Appendix B.
- 1.7 This guidance is intended to supersede any advice previously issued, for the purposes of trivial commutation calculations. No advice or factors issued in the past should be used for cases after this date. In particular, this guidance supersedes:
 - UK Atomic Energy Authority Pension Schemes: Factors for calculating trivial commutation" dated 21 April 2016.
- 1.8 Various restrictions on trivial pension commutation are imposed by the pension taxation regime. A payment of a lump sum in lieu of a small pension should be compliant with this and/or overriding legislation in addition to the Schemes' rules.

Implementation and Review

- 1.9 The guidance will apply with immediate effect.
- 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 UKAEA Pension Scheme. Any questions concerning the application of the guidance should, in the first instance, be referred to UKAEA.
- 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.
- 1.13 We do not envisage any other special cases not covered by this note. However, if any do occur they should be referred to GAD.

Third party reliance

- 1.14 This guidance has been prepared for the use of UKAEA 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 the UKAEA 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.
- 1.15 Other than UKAEA 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 Guidance on application of trivial commutation factors

Former contributing members

- 2.1 The lump sum payable in respect of commutation of a trivial pension (in addition to any automatic lump sum not yet paid) should be determined as follows:

$$P \times F_x^M + S \times F_x^{Sp}$$

where:

P	member's pension amount
S	pension payable on the death of the member to their surviving dependant
F_x^M	member's pension factor for a member aged x (Table 1102)
F_x^{Sp}	spouse's pension factor for a member aged x (Table 1102)

- 2.2 The 'member's pension amount' is the annual rate of pension that would be put into payment if trivial commutation were not to proceed, except for members below age 55. For members below age 55 at the date of commutation, the 'member's pension amount' should include any pension increases accrued up to the date of commutation that would otherwise be withheld until the member had reached 55 years of age.
- 2.3 The factors should be selected from Table 1102 (consolidated spreadsheet table number 501) according to the member's age at their nearest birthday as at the commutation date.

Surviving dependants

- 2.4 The lump sum payable in respect of commutation of a trivial surviving dependent's pension should be determined as follows:

$$W \times F_x^W$$

where:

W	surviving dependant's pension amount
F_x^W	surviving dependant's pension factor for a dependant aged x (Table 1112)

- 2.5 The 'surviving dependant's pension amount' is the annual rate of pension that would be put into payment if trivial commutation were not to proceed
- 2.6 The factor should be selected from Table 1112 (consolidated spreadsheet table number 502) according to the dependant's age at their nearest birthday as at the commutation date.
- 2.7 In both cases the member's or dependant's age and pension amount used to calculate the trivially commuted lump sum should be determined as at the date at which the trivial commutation is deemed to occur.
- 2.8 Examples of how to use the factors are set out in section 3.



3 Example Calculations

3.1 Example 1

Status	Former Contributing Member
Date of Birth	01 September 1954
Effective Commutation Date	01 December 2019
Member's Pension Payable	£300 per year
Contingent Spouse's pension	£171.43 per year
Age nearest birthday on effective Commutation Date	65
Lump sum payable:	= £300.00 x 17.60 + £171.43 x 2.61
	= £5,727.43

3.2 Example 2

Status	Widow (surviving dependant)
Date of Birth	08 September 1939
Effective Commutation Date	09 August 2020
Total Pension Payable	£250 per year
Age nearest birthday on effective Commutation Date	81
Lump sum payable:	= £250.00 x 8.61
	= £2,152.50



Appendix A: Factor tables

List of Tables

- Table 1102: Trivial Commutation factors applicable for former contributing members (Table in spreadsheet: 501)
- Table 1112: Trivial Commutation factors applicable for surviving dependants (Table in spreadsheet: 502)



Table 1102: Trivial Commutation factors applicable for former contributing members

Age nearest birthday at relevant date	Member Factor	Spouse Factor
50	24.86	2.14
51	24.44	2.18
52	24.00	2.22
53	23.56	2.26
54	23.11	2.30
55	22.65	2.33
56	22.18	2.37
57	21.70	2.40
58	21.22	2.44
59	20.73	2.47
60	20.23	2.50
61	19.71	2.53
62	19.20	2.55
63	18.67	2.58
64	18.14	2.60
65	17.60	2.61
66	17.05	2.63
67	16.50	2.64
68	15.94	2.66
69	15.38	2.67
70	14.81	2.64
71	14.24	2.64
72	13.66	2.64
73	13.08	2.64
74	12.50	2.63
75	11.93	2.41



Table 1112: Trivial Commutation factors applicable for surviving dependants

Age nearest birthday at relevant date	Unisex Factor	Age nearest birthday at relevant date	Unisex Factor
30	31.14	70	14.73
31	30.86	71	14.17
32	30.58	72	13.61
33	30.29	73	13.05
34	30.00	74	12.48
35	29.70	75	11.92
36	29.40	76	11.36
37	29.10	77	10.80
38	28.79	78	10.25
39	28.47	79	9.70
40	28.15	80	9.15
41	27.82	81	8.61
42	27.49	82	8.08
43	27.15	83	7.55
44	26.80	84	7.04
45	26.45	85	6.54
46	26.08	86	6.06
47	25.70	87	5.60
48	25.32	88	5.17
49	24.92	89	4.77
50	24.52	90	4.39
51	24.10	91	4.04
52	23.68	92	3.71
53	23.25	93	3.40
54	22.81	94	3.11
55	22.36	95	2.85
56	21.91	96	2.62
57	21.44	97	2.42
58	20.97	98	2.25
59	20.49	99	2.11
60	20.00	100	1.98
61	19.50	101	1.86
62	18.99	102	1.76
63	18.48	103	1.66
64	17.97	104	1.57
65	17.44	105	1.50
66	16.91	106	1.43
67	16.37	107	1.36
68	15.83	108	1.31
69	15.28	109	1.25



Appendix B: Assumptions underlying factors

Financial assumptions

Nominal discount rate	4.448% pa
CPI	2.00% pa
Real discount rate (in excess of CPI)	2.40% pa

Mortality assumptions

Base mortality tables and adjustments:	95% of S2NMA * (males) and 99% of S2FMA (females)
Dependants	100% S2NMA (males) and 110% S2DFA (females)
Future mortality improvement	Based on ONS principal UK population projections 2016
Year of Use	2020

* This is based on 35% BNFL male mortality (101% S2NMA) and 65% non-BNFL male mortality (92% S2NMA).

Other assumptions

Proportion of male members for unisex factors	80%
Proportion married	75% (Male) and 70% (Female) assumed married at retirement. For pensioners over 60: broadly in line with ONS estimates of marital status (as at mid-2008) rounded to the nearest 5%
Age difference between member and partner	Male members 3 years older than spouse and females members 3 years younger than their spouse
Allowance for short-term spouse's pensions (where relevant)	Nil



Appendix C: Limitations of this guidance

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