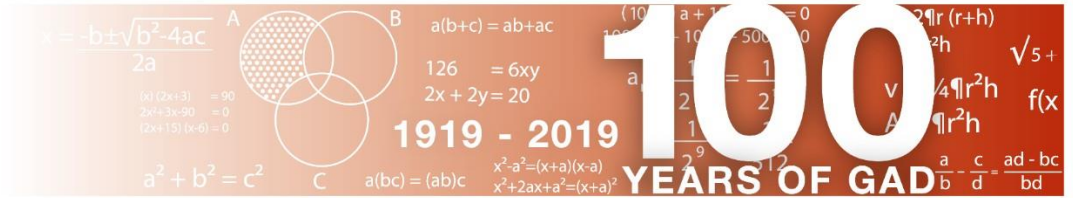




Government
Actuary's
Department



UK Atomic Energy Authority Pension Schemes

Voluntary early retirement benefits

Factors and guidance

Date: 24 April 2020





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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"), and sets out the method and instructions for calculating the actuarial reduction to a member's UKAEA benefits on voluntary early retirement.
- 1.2 The instructions and factors provided in this guidance apply to members when retiring voluntarily before normal pension age (NPA) under Rule 5.20 of the scheme's rules ("UK Atomic Energy Authority Combined Pension Scheme Rules") who have either NPA 60 or NPA 65. They also apply to pension credit members who choose to retire before age 60 under Rule 14.09A.
- 1.3 Paragraphs 2.8 and 2.9 gives details about special cases which should be referred to GAD. We do not envisage any other special cases not covered by this note. However, if any do occur they should also be referred to GAD.
- 1.4 The factors provided in this note have been prepared in light of the advice on assumptions in our letter dated 30 October 2018.

Implementation and review

- 1.5 This guidance will apply from the date issued on the cover. The factors contained in this guidance were issued to the Authority on 22 February 2019.
- 1.6 This guidance replaces the previous guidance dated 26 April 2016. The factors have been updated but the calculation methodology remains unchanged.
- 1.7 The Authority have confirmed that the revised UKAEA voluntary early retirement benefits factors will be implemented with effect from 29 October 2018. As these factors have been issued after this date transitional procedures are required for the period between 29 October 2018 and 22 February 2019. The approach previously agreed by Richard Stoneham in his email of the 18 March 2016 was to do the following:
 - Cases with an effective date before the implementation date should use the factors previously issued on 16 March 2016.
 - Cases with effective date between implementation date and provision of revised factors, i.e. between 29 October 2018 and 22 February 2019, should be processed using a 'best of' approach. The previously issued factors should be used to process the case initially. These cases should be revisited using the new factor table 1002 contained in Appendix A and where the new factors result better outcome for the ex-spouse they should be given the additional benefit.
 - Cases with effective date after the provision of factors, i.e. after 22 February 2019, should use the revised factors.



- 1.8 We are unaware of any legal advice taken by the Authority in respect of backdating. GAD confirms that it has not taken any legal advice on this point in respect of the UK Atomic Energy Authority pension schemes. The Authority may wish to consider whether it should take legal advice to identify whether there remain any material issues in relation to its approach to backdating.
- 1.9 The remainder of this note covers the factor tables, guidance on their use and a number of worked examples.
- 1.10 Details of the principal assumptions underlying the factor tables in this guidance are set out in Appendix B.
- 1.11 Section 4 provides details of the limitations relating to the factors and guidance.
- 1.12 This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with early retirement calculations for the UKAEA Pension Scheme. Any questions concerning the application of the guidance should, in the first instance, be referred to the Authority.
- 1.13 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.
- 1.14 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

- 1.15 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.
- 1.16 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 Instructions

- 2.1 Any member aged over 55 who has left pensionable service or an ex-spouse participant aged over 55 may apply to receive their pension and lump sum benefits early (before NRA) in accordance with Rule 5.20 and Rule 14.09A respectively of the Schemes.
- 2.2 Some members may have the right to apply for early payment of benefits from age 50.
- 2.3 The benefits are reduced to reflect the fact that they will be paid earlier and for longer.
- 2.4 The factors needed to calculate the actuarially reduced benefits for members are provided in a single table. Different factors for members with NPA60 or NPA65 are provided in separate columns. There is no additional adjustment which applies between age 50 and 55 as this is included within the new NPA specific factors.
- 2.5 The formula below sets out how to reduce the member's pension on early retirement for all members except for those described in 2.8 below.

$$\text{Early retirement pension} = \text{Unreduced pension} \times \text{Factor}$$

Where;

Unreduced pension is the member's pension at retirement.

Factor is the factor from the appropriate column of Table 1002 in Appendix A according to the member's period until NRA. The factors should be interpolated to reflect this period to the nearest month.

- 2.6 Members accrue an automatic lump sum alongside their pension. This should be reduced as follows:

$$\text{Early retirement lump sum} = \text{Unreduced lump sum} \times \text{Factor}$$

Where;

Unreduced lump sum is the member's lump sum at retirement.

Factor is the factor from the appropriate column of Table 1002 in Appendix A according to the member's period until NRA. The factors should be interpolated to reflect this period to the nearest month (i.e. the same factor that was applied to the member's pension).

- 2.7 The pension payable to the member's spouse on their death is not reduced as a result of their early retirement.



- 2.8 These factors may be used to calculate early retirement pensions and lump sums for members who retire between ages 50 and 55. However, the factors only apply to members under age 55 provided the pension increases they will receive at 55 relate only to the period between early retirement and reaching age 55. Any cases where members will also receive pension increases at age 55 in respect of a period before their retirement should be referred to GAD. For example, this may occur if the year of reckonable service used to calculate the member's Pensionable Final Earnings (PFE) does not end on the member's last day of service, leading to accrued deferred pension increases in respect of the period between the end of the year of reckonable service used to calculate PFE and the date of early retirement.
- 2.9 For the purpose of this guidance, an optant's NRA is 60. However, the payments required from the optant's employer should be adjusted when an optant takes early retirement. Such cases should be referred to GAD.



3 Examples

3.1 This section illustrates how actuarial reduction of a member's benefits on voluntary early retirement should be calculated.

Example 1 – NPA 65 Member

Member Details

A	Name	
B	Normal retirement age (NPA)	65
C	Elected early retirement age	62 yrs 4 months
D	Period until NPA - years	2
E	- months	8

Accrued unreduced benefits (revalued to early retirement date)

F	Pension	10,000
G	Lump Sum	30,000
H	Contingent spouse's pension	5,000

Factors

I	Factor relating to (D) years (from table 1002)	90.4%	
J	Factor relating to (D + 1) years (from table 1002)	86.1%	
K	Interpolated factor	87.5%	$\{ I*(12-E)+J *E \}/12$

Early retirement benefits payable

L	Pension	8,750	$F * K$
M	Lump Sum	26,250	$G * K$
N	Contingent spouse's pension	5,000	H



Example 2 – NPA 60 Member

Member Details

A	Name	
B	Normal retirement age (NPA)	60
C	Elected early retirement age	51 yrs 4 months
D	Period until NPA - years	8
E	- months	8

Accrued unreduced benefits (revalued to early retirement date)

F	Pension	10,000
G	Lump Sum	30,000
H	Contingent spouse's pension	5,000

Factors

I	Factor relating to (D) years (from table 1002)	71.5%	
J	Factor relating to (D + 1) years (from table 1002)	69.0%	
K	Interpolated factor	69.8%	$\{ I*(12-E)+J *E \}/12$

Early retirement benefits payable

L	Pension	6,980	$F * K$
M	Lump Sum	20,940	$G * K$
N	Contingent spouse's pension	5,000	H



4 Limitations of this guidance

- 4.1 This guidance should not be used for any purpose other than those set out in this guidance.
- 4.2 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.
- 4.3 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.
- 4.4 This guidance only covers the actuarial principles around the calculation and application of early retirement factors. Any legal advice in this area should be sought from an appropriately qualified person or source.
- 4.5 Scheme managers and administrators should satisfy themselves that early retirement calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting-out requirements.
- 4.6 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.



Appendix A: Factor tables

List of tables

- Table 1002: Factors for voluntary early retirement (Table in spreadsheet: 401)

Table 1002: Factors for voluntary early retirement

Years to NRA	Early retirement factor NPA60 %	Early retirement factor NPA65 %
0	100.0	100.0
1	95.5	95.0
2	91.4	90.4
3	87.5	86.1
4	83.8	82.2
5	80.4	78.5
6	77.2	75.0
7	74.3	71.8
8	71.5	68.8
9	69.0	66.0
10	66.6	63.3
11	-	60.8
12	-	58.5
13	-	56.4
14	-	54.4
15	-	52.5



Appendix B: Principal 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 * (M) and 99% of S2FMA (F) (as per 2016 valuation)
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). The underlying mortality rates are those agreed as part of the recent experience analysis.

Other assumptions

Proportion of male members for unisex factors	80%
Allowance for commutation	Nil