Government Actuary's Department

Armed Forces Pension Arrangements

McCloud guidance examples – applying McCloud remedy to retrospective divorce cases for pensioners

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Navigating risk | Cutting through complexity

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Introduction

These examples have been prepared for use by the scheme administrators to demonstrate the calculations set out in the guidance notes:

- Pension Sharing on Divorce for McCloud members: Valuation day before 1 October 2023 – "Retrospective full guidance" - Introductory note dated 24 July 2025
- Pension Sharing on Divorce for McCloud members: Valuation day before 1 October 2023 – "Retrospective full guidance L" - Protected members dated 24 July 2025
- Pension Sharing on Divorce for McCloud members: Valuation day before 1 October 2023 – "Retrospective full guidance R" - Unprotected members dated 24 July 2025

These examples should be read in conjunction with those guidance notes.

The examples in this note relate to members who were pensioners on transfer day. Separate examples have been provided for members who were active or deferred on transfer day.

These examples on applying McCloud remedy to retrospective divorce depend on carrying out divorce calculations in respect of benefits in the legacy schemes and the reformed scheme. Guidance and examples on these calculations are set out in divorce guidance notes for those schemes, as referenced in the McCloud guidance notes.

These examples cover Tranche 2 benefits only (as defined in the McCloud guidance notes). Tranche 1 and Tranche 3 calculations should be carried out in addition as required.

The examples refer to the following terminology, in line with those set out in the McCloud guidance notes:

Protected members & Unprotected members (with PSO which relates to legacy or reformed scheme only)

For shareable remediable service		
	Stands for	Relates to
Init_CEV	Initial Cash Equivalent Value	PDM
Init_PCEV	Initial Ex-Partner Cash Equivalent Value	PCM
Alt_CEV	Alternative Cash Equivalent Value	PDM
Alt_UpayAdj	Alternative Underpayment Adjustment	PDM (Group 2 only)
Alt_PCEV	Alternative Ex-Partner Cash Equivalent Value	PCM
RPCEV	Remediable Ex-Partner Cash Equivalent Value	PCM
RCredAdj	Remediable Credit Adjustment	PCM

* Only relevant for Group 2 members (i.e. in-scope PDMs who were pensioners at the **transfer day**).

Compliance and limitations

These examples have been prepared for use by the scheme manager and scheme administrator of the Armed Forces Pension Arrangements for the purpose of applying the McCloud remedy to retrospective divorce cases. They were commissioned by the scheme manager and were prepared by GAD in our role advising the scheme manager on the Armed Forces Pension Arrangements. These examples should be used for illustrative purposes, and represent simplified member examples. Administrators should continue to calculate legacy and reformed pension benefits for each member from first principles to feed into remedy calculations.

These examples may be published on the scheme manager's website.

Other than the scheme manager, no person or third party is entitled to place any reliance on the contents of these examples, 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 these examples, whether or not GAD has agreed to the disclosure of its advice to the third party.

These examples have been prepared in accordance with the applicable Technical Actuarial Standard: TAS 100 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

Example 1 – Protected member, legacy annex only, negative Alt_UpayAdj, no RCredAdj

The following scenario is considered in this example:

Status at transfer day:	**Pensioner**
Protection status:	**Protected**
Age at retirement:	**Would been entitled to immediate retirement benefits from the alternative scheme**
PSO received:	**Legacy annex only (Scottish divorce case)**

Member data required

Date of birth	1 April 1967
Sex	Male
Transfer day	1 July 2023
Valuation day	1 September 2023
Settlement date	1 January 2024
Member's age at transfer day	56
Member's age at retirement	55
Ex-spouse's date of birth	1 January 1969
Ex-spouse's age at transfer day	54
Ex-spouse's sex	Female
Details of PSO annex	Legacy annex amount to be shared: £32,000.00 Total legacy CEV: £160,000.00 As this is a Scottish divorce case, the implied percentage to be shared from the legacy scheme should be calculated based on the monetary amount specified by the legacy scheme PSO:

	Legacy scheme PSO% = £32,000.00 / £160,000.00= 20.00%

Data required for remedy calculations

Information on the benefits earned by the member in the shareable remedy period as if they were earned only in the legacy scheme and only in the reformed scheme is required:

Shareable remedy period benefits	If accrued in legacy scheme	If accrued in reformed scheme
Scheme	AFPS05	AFPS15
Pension	£3,500.00	£2,900.00
Survivor pension	£2,187.50	£3,295.45

Benefit amounts are as at the transfer day and include an early retirement factor for the AFPS15 member pension. In this case, the member retired before the transfer day (and could also have taken immediate retirement benefits in the alternative scheme), and so pension amount is the pension in payment, including pension increases up to transfer day. Any retirement lump sum was paid before transfer day and is allowed for in the Calculation of Alternative Underpayment Adjustment below.

Calculations required

Step 1 – Calculation of Initial Cash Equivalent Value (Init_CEV)

As the member was a protected member, we know the CEV used to implement the PSO for remediable service relates only to AFPS05 style benefits.

Therefore **Init_CEV** is:

Service period	Scheme	Calculation method	Value (Init_CEV)
Tranche 2 (up to transfer day)	AFPS05	Legacy scheme guidance Pension Sharing on Divorce: Factors and Guidance dated 13 February 2020 Table 301A (2023 factors)	£90,593.13

Step 2 – Calculation of Initial Ex-Partner Cash Equivalent Value (Init_PCEV)

The value of the shareable rights credited to the PCM which relates to the shareable remediable service only is as follows:

Init_PCEV = Init_CEV x legacy scheme PSO%

= £90,593.13 x 20.00%

= £18,118.63

Step 3 – Calculation of Alternative Cash Equivalent Value (Alt_CEV)

Based on the benefits the member would have accrued in the shareable remedy period in the reformed scheme, **Alt_CEV** is as follows:

Service period	Scheme	Calculation method	Value (CEV)
Tranche 2 (up to transfer day)	AFPS15	Reformed scheme guidance Pension Sharing on Divorce: Factors and Guidance dated 13 February 2020 Table 301A (2023 factors)	£82,284.86

Step 4 – Calculation of Alternative Underpayment Adjustment (Alt_UpayAdj)

As this member was a pensioner at transfer day, any over/underpayments should be calculated.

Rpayment — Reformed benefit payments the member would have received between retirement and transfer day, in relation to shareable remediable service, had they been accruing reformed benefits.

ACTpayment — Actual benefit payments received between retirement and transfer day, in relation to shareable remediable service.

Alt_UpayAdj = (Rpayment – ACTpayment) with interest applied to transfer day

= - £11,522.49 (i.e. an overpayment)

The interest calculation for Alt_UpayAdj is done separately for lump sum and pension payments and then the results are added together. The applicable interest rates for each type of benefit depend on whether there has been an overpayment or underpayment (in this case, an overpayment of lump sum and an overpayment of pension).

Step 5 – Calculation of Alternative Ex-Partner Cash Equivalent Value (Alt_PCEV)

The value of the shareable rights that would have been credited to the PCM if the remedy period benefits were earned in the reformed scheme is as follows:

Alt_PCEV = (Alt_CEV + Alt_UpayAdj) x legacy scheme PSO%

= (£82,284.86 - £11,522.49) x 20.00%

= £14,152.47

Step 6 – Calculation of Remediable Credit Adjustment (RCredAdj)

RPCEV = Maximum (Alt_PCEV, Init_PCEV)

= Maximum (£14,152.47, £18,118.63)

= £18,118.63

RCredAdj = RPCEV – Init_PCEV

= £18,118.63- £18,118.63

= £0.00

Step 7 – Calculation of the remediable pension credit in respect of RCredAdj

As the RCredAdj is zero, no further calculations or adjustments are necessary in respect of the pension credit, and the PCM should be presented with the necessary information.

Step 8 – Re-calculation of member's pension debit

Details of the pension debits as they apply under the legacy scheme and as they apply under the reformed scheme are required.

Service period	Member debit amounts
Tranche 2 (up to transfer day) (legacy scheme)	• Member's pension debit = 20.00% x £3,500.00 **= £700.00 p.a.** • Survivor's pension debit = 20.00% x £2,187.50 = **£437.50 p.a.**
Tranche 2 (up to transfer day) (reformed scheme)	• Member's pension debit = 20.00% x £2,900.00 **= £580.00 p.a.** • Survivor's pension debit = 20.00% x £3,295.45 = **£659.09 p.a.**

The pension debits are revalued as usual for each option.

As the member was a pensioner on the transfer day, the over/underpayments pre-transfer day need to be shared with the ex-spouse in line with the PSO. This means that if the member chooses to receive reformed scheme benefits, an underpayment adjustment debit (Deb_AltUpayAdj) should apply to reduce the amount of pre-transfer day money owed, either from the scheme to the member or from the member to the scheme, by the legacy PSO%.

The calculations for Deb_AltUpayAdj use payments which reflect the member's actual commutation choice.

Deb_AltUpayAdj = (Rpayment – ACTpayment), with payments calculated up to transfer day and interest applied to settlement date x legacy scheme PSO percentage

= - £11,637.15 x 20.00%

= - £2,327.43

Note that Rpayment - ACTpayment differs from that calculated in step 4 as a result of interest from transfer day to settlement date, and may also differ due to the member’s commutation choice being different to that assumed in step 4.

Example 2 – Unprotected member, reformed annex only, positive Alt_UpayAdj, RCredAdj required

The following scenario is considered in this example:

Status at transfer day:	**Pensioner**
Protection status:	**Unprotected**
Age at retirement:	**Would been entitled to immediate retirement benefits from the alternative scheme**
PSO received:	**Reformed annex only**

Member data required

Date of birth	1 May 1967
Sex	Male
Transfer day	1 July 2023
Valuation day	1 September 2023
Settlement date	1 January 2024
Member's age at transfer day	56
Member's age at retirement	56
Ex-spouse's date of birth	1 January 1964
Ex-spouse's age at transfer day	59
Ex-spouse's sex	Female
Details of PSO annex	Reformed annex: 20.00%

Data required for remedy calculations

Information on the benefits earned by the member in the shareable remedy period as if they were earned only in the legacy scheme and only in the reformed scheme is required:

Shareable remedy period benefits	If accrued in legacy scheme	If accrued in reformed scheme
Scheme	AFPS05	AFPS15
Pension	£4,000.00	£3,300.00
Survivor pension	£2,500.00	£3,750.00

Benefit amounts are as at the transfer day and include the early retirement factor which was applied to the AFPS15 member pension at retirement. In this case, the member retired before the transfer day (and could also have taken immediate retirement benefits in the alternative scheme), and so pension amount is the pension in payment, including pension increases up to transfer day. Any retirement lump sum was paid before transfer day and is allowed for in the Calculation of Alternative Underpayment Adjustment below.

Calculations required

Step 1 – Calculation of Initial Cash Equivalent Value (Init_CEV)

As the member was an unprotected member, we know the CEV used to implement the PSO for remediable service relates only to AFPS15 style benefits.

Therefore **Init_CEV** is:

Service period	Scheme	Calculation method	Value (CEV)
Tranche 2 (up to transfer day)	AFPS15	Reformed scheme guidance Pension Sharing on Divorce: Factors and Guidance dated 13 February 2020 Table 301A (2023 factors)	£93,634.50

Step 2 – Calculation of Initial Ex-Partner Cash Equivalent Value (Init_PCEV)

The value of the shareable rights credited to the PCM which relates to the shareable remediable service only is as follows:

Init_PCEV = Init_CEV x reformed scheme PSO%

= £93,634.50 x 20.00%

= £18,726.90

Step 3 – Calculation of Alternative Cash Equivalent Value (Alt_CEV)

Based on the benefits the member would have accrued in the shareable remedy period in the legacy scheme, **Alt_CEV** is as follows:

Service period	Scheme	Calculation method	Value (Init_CEV)
Tranche 2 (up to transfer day)	AFPS05	Legacy scheme guidance Pension Sharing on Divorce: Factors and Guidance dated 13 February 2020 Table 301A (2023 factors)	£103,535.00

Step 4 – Calculation of Alternative Underpayment Adjustment (Alt_UpayAdj)

As this member was a pensioner at transfer day, any over/underpayments should be calculated.

Lpayment — Legacy benefit payments the member would have received between retirement and transfer day, in relation to shareable remediable service, had they been accruing legacy benefits.

ACTpayment — Actual benefit payments received between retirement and transfer day, in relation to shareable remediable service.

Alt_UpayAdj = (Lpayment – ACTpayment) with interest applied to transfer day

= £12,156.53 (i.e. an underpayment)

The interest calculation for Alt_UpayAdj is done separately for lump sum and pension payments and then the results are added together. The applicable interest rates for each type of benefit depend on whether there has been an overpayment or underpayment (in this case, an underpayment of lump sum and an underpayment of pension).

Step 5 – Calculation of Alternative Ex-Partner Cash Equivalent Value (Alt_PCEV)

The value of the shareable rights that would have been credited to the PCM if the remedy period benefits were earned in the legacy scheme is as follows:

Alt_PCEV = (Alt_CEV + Alt_UpayAdj) x reformed scheme PSO%

= (£103,535.00 + £12,156.53) x 20.00%

= £23,138.31

Step 6 – Calculation of Remediable Credit Adjustment (RCredAdj)

RPCEV = Maximum (Alt_PCEV, Init_PCEV)

= Maximum (£23,138.31, £18,726.90)

= £23,138.31

RCredAdj = RPCEV – Init_PCEV

= £23,138.31 - £18,726.90

= £4,411.41

Step 7 – Calculation of the remediable pension credit in respect of RCredAdj

As the RCredAdj is positive, it will need to be converted into an additional pension credit for the PCM. As the PSO contains a reformed scheme annex only, the pension credit based on RCredAdj will be transferred into the ex-partner's pension credit account in the reformed scheme, calculated using the relevant reformed scheme guidance and factors in force at the **valuation day**.

The additional pension credit member in respect of RCredAdj is as follows:

Service period	**Scheme**	**Calculation method**	**Ex-partner additional pension credit amounts**
Tranche 2 (Reformed scheme basis)	AFPS15	Using RCredAdj as the ex-partner's cash equivalent (ESCE) in applying the reformed scheme pension credit guidance. Pension Sharing on Divorce: Factors and Guidance dated 13 February 2020 Table 309B (2023 factors)	• Pension of **£288.14 p.a.**

The additional pension credit is revalued from the transfer day as with the original pension credit.

Step 8 – Re-calculation of member’s pension debit

Details of the pension debits as they apply under the reformed scheme and as they apply under the legacy scheme are required.

Service period	Member debit amounts
Tranche 2 (up to transfer day) (legacy scheme)	• Member’s pension debit = 20.00% x £4,000.00 **= £800.00 p.a.** • Survivor’s pension debit = 20.00% x £2,500.00 = **£500.00 p.a.**
Tranche 2 (up to transfer day) (reformed scheme)	• Member’s pension debit = 20.00% x £3,300.00 **= £660.00 p.a.** • Survivor’s pension debit = 20.00% x £3,750.00 = **£750.00 p.a.**

The pension debits are revalued as usual for each option.

As the member was a pensioner on the transfer day, the over/underpayments pre-transfer day need to be shared with the ex-spouse in line with the PSO. This means that if the member chooses to receive legacy scheme benefits, an underpayment adjustment debit (Deb_AltUpayAdj) should apply to reduce the amount of pre-transfer day money owed, either from the scheme to the member or from the member to the scheme, by the legacy PSO%.

The calculations for Deb_AltUpayAdj use payments which reflect the member’s actual commutation choice.

Deb_AltUpayAdj = (Lpayment – ACTpayment), with payments calculated up to transfer day and interest applied to settlement date

x reformed scheme PSO percentage

= £12,277.49 x 20.00%

= £2,455.50

Note that Lpayment - ACTpayment differs from that calculated in step 4 as a result of interest from transfer day to settlement date, and may also differ due to the member’s commutation choice being different to that assumed in step 4.